ANNUAL REPORT 2004

OSC

ONTARIO SECURITIES COMMISSION

Making a Difference

"Our research shows that the OSC is viewed by its major constituents as a strong, essential organization that excels at its core competencies of regulating markets and providing necessary and effective enforcement."

Dr. Darrell Bricker,
President & COO,
Ipsos-Reid Public Affairs North America

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Our Mandate

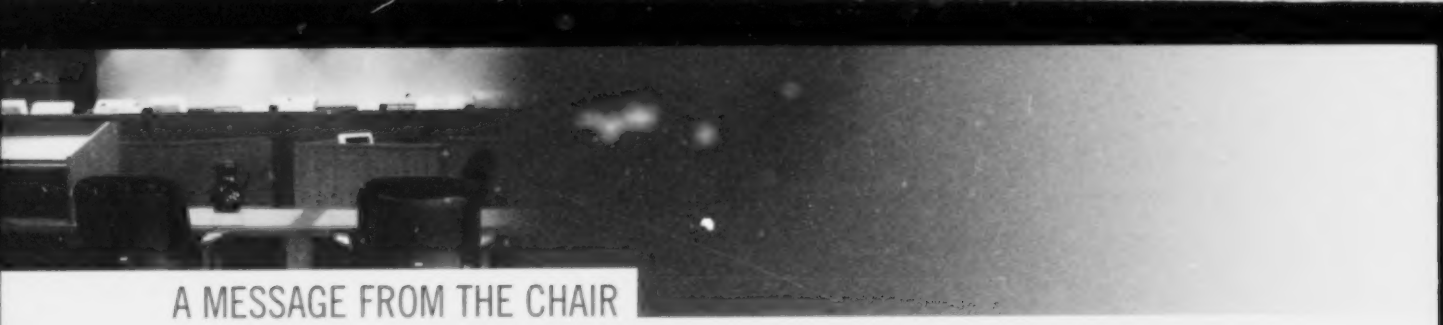
- To provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity

Our Vision

- Canadian financial markets that are attractive to domestic and international investors, issuers and intermediaries because they have integrity and are cost-efficient

Our Approach

- Proactive, innovative and cost-effective in carrying out our mandate
- Fair and rigorous in applying the rules to the marketplace
- Timely, flexible and sensible in applying our regulatory powers to a rapidly changing marketplace



A MESSAGE FROM THE CHAIR

The OSC's policy priority over the past year has been to enact new rules that help fulfill our dual mandate of providing protection to investors from unfair, improper or fraudulent practices and fostering fair and efficient capital markets. Now, it is time for the emphasis to shift to enforcing these new rules with the same vigilance we apply to existing regulatory instruments.

New Rules to Ensure Transparency and Accountability

In the wake of several high profile U.S. financial reporting scandals, it was clear what had to be at the top of our agenda: promoting investor confidence in our capital markets.

We have now put in place three new rules that are as robust as those required by the U.S. Sarbanes-Oxley legislation, but tailored to specific Canadian circumstances and priorities. Under these rules, CEOs and CFOs are required to certify the fair presentation of annual and interim reports; reporting issuers are required to have an audit committee that is independent of management and includes members who are financially literate; and issuers are required to have their external audit conducted by a public accounting firm registered with the Canadian Public Accountability Board, the new independent watchdog for public company auditors.

There are two additional areas in which we are moving to establish high quality governance standards. First, we are completing the corporate governance policy establishing the benchmarks against which issuers will be required to disclose their practices and explain departures. The comment period for this instrument has ended and we are reviewing the responses. Second, we are considering requiring management reports on the effectiveness of internal controls over financial reporting as well as auditor attestation to such reports. Similar provisions are contained in the Sarbanes-Oxley Act.

The three rules already in place have elicited positive feedback from many investors, directors and other market participants. Along with these rules, a number of stakeholders have helped to build momentum toward greater transparency and accountability to investors. Increasingly, members of corporate boards recognize that they constitute the principal line of defence for the interests of shareholders. Rather than seeing management as a client, auditors are more likely to recognize their own role as the providers of independent scrutiny of management. Corporate directors are finding that auditors are increasingly taking the initiative in providing them with in-depth information on potentially challenging issues. The media have focused considerable attention on these issues, thereby increasing both awareness of the potential problems and pressure to ensure they are addressed.

This kind of momentum depends on a variety of factors; however, as a regulator, the OSC can have impact on structure and on process. But one of the most important elements driving corporate governance is boardroom culture. Regulators can provide tools, but it is directors and other market participants who must use them to full advantage.

Enforcement: Bolstering Cooperation Among Agencies

Since becoming Chair, one of my central goals has been improving our enforcement capabilities. However, much of the conduct that harms our capital markets can be classified as fraud, market manipulation or theft and, under our current system, the appropriate penalties for these offences can only be meted out under the *Criminal Code*, which is the responsibility of law enforcement agencies. Cooperation among regulatory and law enforcement agencies is crucial and, in that respect, we are making excellent progress. The OSC has long had effective working relationships with provincial and local police forces. For instance, we have now been involved for three years in the Securities Fraud Office, a successful joint venture with the RCMP. These type of activities have grown into a more formal cooperation between the OSC and RCMP, and others, with the establishment of the new Integrated Market Enforcement Teams (IMETs) being set up as part of a $120 million federal program.

The Insider Trading Task Force, to which we contributed leadership and resources, issued a report in 2003 making recommendations to combat illegal insider trading. This initiative brought all of Canada's senior regulators together to address one of the most serious problems facing capital markets in Canada. Implementation of the recommendations is being spearheaded by our Director of Enforcement. Related to this, the enactment of Bill C-13 has made insider trading a *Criminal Code* offence and increased the maximum sentence for fraud to 14 years. These new sanctions, together with the disgorgement and administrative penalty powers given to the Commission by the Ontario Government last year, have greatly strengthened our ability to act.

David A. Brown, Q.C.
Chair

Needed: Securities Regulatory Reform

As capital increasingly moves across provincial and national borders at an accelerated rate, the need for seamless regulation across all Canadian provinces and territories has become apparent. Since early 2002, we have worked with our provincial and territorial counterparts in the Canadian Securities Administrators (CSA) to develop uniform securities legislation. We met a two-year timeline, publishing consultation drafts this year. If this legislation is enacted across Canada, market participants will be better able to comply with the securities laws of all jurisdictions across the country simultaneously.

While the adoption of this legislation would be a major step forward in harmonizing our securities laws, it would still leave Canada with 13 separate regulators. The OSC will continue to support the Ontario Government's initiative to push for reform of Canada's cumbersome regulatory structure and the creation of a single securities regulator. The debate, which we helped revive several years ago, led to the federal government launching the Wise Persons' Committee, whose endorsement of a single securities regulator for Canada has provided new momentum for such reform.

Preferences: Securities Regulator/Legislation

Thinking about how the capital markets in Canada are currently regulated by 13 provincial and territorial regulators, which one would you most prefer?

Adopt one, single national securities regulator and have this new regulator introduce uniform securities legislation
75%
76%
Maintain existing 13 regulators but have all of them adopt identical, uniform securities legislation
21%
21%
Maintain existing 13 regulators and each of their individual sets of securities regulations
4%
8%
Reporting Issuers
Registrants

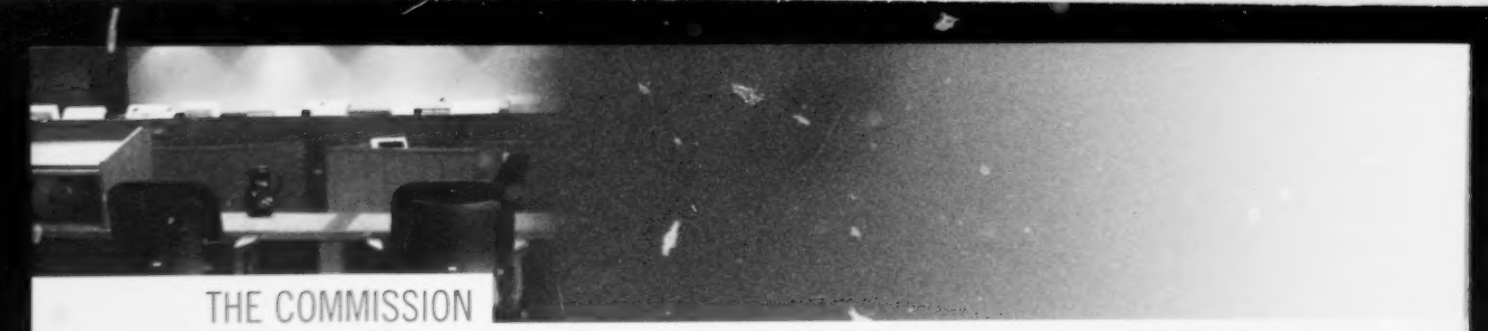
Source: OSC Stakeholder Satisfaction Study June 2004, Ipsos-Reid Public Affairs

International Regulatory Cooperation

Given the realities of regulation in an inter-connected world, we consider our international regulatory initiatives to be of great importance. We continue to contribute to the efforts of regulatory bodies such as the International Organization of Securities Commissions (IOSCO) in establishing best practices on many of the issues that are important to us. Our work with these organizations gives us a strategic opportunity to benchmark our own progress and promotes international confidence in our markets. The OSC's recent election to IOSCO's Executive Committee will strengthen our involvement.

A great deal has been achieved in securities regulation over the past year. I would like to thank market participants who have been generous with their time in putting forward their views and providing perspective on our proposed regulatory initiatives. I would also like to thank our staff and Commissioners – in particular departed Commissioners Kerry Adams and Robin Korthals – who have contributed their expertise, insight, ideas and hard work. The result of their combined effort is improved investor confidence and fairer and more efficient capital markets.

David A. Brown, Q.C.
Chair, Ontario Securities Commission



THE COMMISSION

OSC Governance

Given our commitment to the principles of accountable and transparent corporate governance, the OSC recognizes the importance of giving life to these principles in the conduct of our own affairs. The Commission's governance structure emphasizes oversight and decision-making by a board of directors.

The appointed members of the Commission serve as the Commission's governing body. The Commissioners are charged with statutory responsibility for the administration of the *Securities Act*. They discharge this responsibility through the operation of three related but independent functions:

- **Policy Body**: The Commissioners set the OSC's overall goals and priorities and oversee their implementation through the review of the Commission's policy, rule-making, public comment and legislative amendment processes.
- **Board of Directors**: Members of the Commission also serve as the OSC's Board of Directors. They oversee the OSC's strategic planning, budgeting, operations and financial reporting policies and procedures and serve on the Committees of the Board.
- **Adjudicative Body**: Commissioners serve as the OSC's administrative tribunal in the exercise of its adjudicative responsibilities. Panels composed of up to three Commissioners hear enforcement matters, including alleged breaches of the *Act*, and preside over hearings involving regulatory policy issues.

Accountability and Oversight

The *Securities Act* establishes a framework to ensure the Commission's accountability and appropriate oversight, including provision for a Memorandum of Understanding with the Minister responsible for the OSC, annual statements of priorities, and annual business plans and budgets, all of which are made public. A further mechanism for ensuring accountability and oversight was added in 1994. It requires the Minister to establish an advisory committee every five years to review the legislation, regulations and rules relating to matters dealt with by the Commission and its legislative needs. The Five Year Review Committee reports to the Minister, who is required to table the report in the Legislature.

Board Role and Effectiveness

Several steps have been taken to enhance the effectiveness of Board participation.

Lead Director: One of the Commission's recommended best practices for corporate governance of public companies is to designate a director as a lead director when the functions of chief executive officer and chair have not been separated. As the *Securities Act* combines the role of Commission Chair and Chief Executive Officer, the Commission has created the position of Lead Director, which is filled by an independent Commissioner. Acting in consultation with the Chair and the Chairs of the Board Committees, the Lead Director is responsible for overseeing the operations of the OSC's Board of Directors to ensure that it carries out its responsibilities effectively. This includes providing greater assurance that the responsibilities of the Board and its Committees are well understood by Commission members and management, that its resources are adequate, that it receives relevant information on a timely basis and that its effectiveness is assessed on a regular basis.

Orientation and Education: Newly appointed Commissioners receive an extensive orientation on the roles and operations of the Commission and the duties of the position. In addition, Commissioners are enrolled in a training course for adjudicators and attend annual or semi-annual Commissioners' retreats, which serve as opportunities for receiving continuing education and for setting strategic direction.

Board/Commission Attendance: Between April 1, 2003 and March 31, 2004 there were bi-weekly Commission meetings to consider policy, rule-making and operational matters. In addition, there were four Board meetings and seven special Board meetings. Commissioner attendance at meetings was 90 per cent during this period.

Financial Accountability

The OSC is a self-funded Crown corporation. Fees, revenues and investments collected or made pursuant to the *Securities Act* are applied to carrying out the Commission's powers and duties. The Commission prepares annual financial statements in accordance with Canadian Generally Accepted Accounting Principles, and appoints an independent auditor to audit the financial statements for each fiscal year. Since the fiscal period ending March 31, 1998, the Provincial Auditor has been fulfilling this function.

Role of Commissioners

Policy Development: Staff of the Commission bring policy initiatives to the Commission for discussion, input and approval. After a public comment process has been completed, the Commission must formally adopt a policy before it comes into force. The Commission's procedures are similar with regard to rule-making. A rule does not come into force until the Minister has had an opportunity to consider it.

Adjudications: Where a breach of Ontario securities law or conduct contrary to the public interest is alleged by staff of the Commission, a hearing may be convened before a panel of Commissioners. The Chair of the Commission does not sit on hearing panels. At the conclusion of the hearing, the Commission panel may impose a variety of sanctions if warranted. Settlement agreements reached between staff and respondents are subject to approval by the Commission at a hearing. Hearings may also be held on matters such as issues arising from takeover bids or decisions by the Branch Director not to receipt a prospectus. A person or company directly affected by a final decision of the Commission may appeal to the Divisional Court.

Committees

To assist the Board and the Commission in carrying out their roles and responsibilities, the Commission has established four standing Committees: the Audit and Finance Committee; the Governance and Nominating Committee; the Compensation Committee; and the Adjudicative Committee. All members of the first three of these Committees, including their respective Chairs, are independent part-time Commissioners, with the exception of the Chair of the Commission, who is an *ex-officio* non-voting member of the Governance and Nominating Committee. The members of the Adjudicative Committee include the two Vice-Chairs and some part-time Commissioners.

Audit and Finance Committee: This Committee assists the Board in fulfilling its fiduciary responsibility regarding accounting, financial and reporting policies and practices of the Commission. This includes reviewing and recommending for Board approval the Commission's quarterly and annual financial statements. The Committee also approves an investment policy for surplus funds maintained by the Commission. The Commission's external auditor reports directly to the Committee, as does the firm that performs the Commission's internal audit function.

Governance and Nominating Committee: This Committee is responsible for monitoring and evaluating the Commission's corporate governance system and proposing improvements as appropriate. The Committee also recommends candidates for appointment as Commissioners to the Ontario Government with a view to ensuring sufficient Commission strength and expertise to achieve its short and long-term goals.

Compensation Committee: This Committee monitors and evaluates executive and Commissioner compensation. The Committee also reviews proposals regarding compensation philosophy and plans and recommends appropriate compensation levels for the Chair, Vice-Chairs, Commissioners and Executive Director. The Committee reviews annually the performance of the Chair, Vice-Chairs and Executive Director.

Adjudicative Committee: This Committee oversees the Commission's hearing policies and procedures to ensure they are independent, effective and fair. Established in 2002, the Committee currently includes five Commission members, including both Vice-Chairs. The Secretary to the Commission serves as an *ex-officio* member of this Committee.

THE COMMISSIONERS

The tone of the Commission is set by its Commissioners. They bring broad knowledge of how the capital markets and the securities industry function. Their experience, insights and diverse viewpoints are invaluable in helping to protect investors from unfair, improper or fraudulent practices and foster fair and efficient capital markets.

David A. Brown, Q.C., Chair — Appointed 04/98

A former senior corporate law partner with Davies, Ward & Beck, Mr. Brown, in addition to his full-time role as OSC Chair, is Chair of the Council of Governors of the Canadian Public Accountability Board and a senior member of the Canadian Securities Administrators (CSA). He was appointed Queen's Counsel in 1984. His appointment as OSC Chair expires in April 2008.

Paul M. Moore, Q.C., Vice-Chair — Appointed 01/99

A member of the Ontario Bar, Mr. Moore was appointed Queen's Counsel in 1982, and has extensive experience in corporate and securities law. Most recently, he was a partner with Tory Tory DesLauriers & Binnington (now Torys) where he headed up the firm's derivatives practice group. Mr. Moore is Chair of the OSC's Adjudicative Committee. His current appointment expires in February 2006.

Susan Wolburgh Jenah, LL.B., Vice-Chair — Appointed 02/04

Ms. Wolburgh Jenah has a comprehensive knowledge of securities law and of Commission policies and procedures, having served as a member of staff for more than 20 years. Most recently, she was the OSC's General Counsel and Director of International Affairs. Ms. Wolburgh Jenah was called to the Ontario Bar in 1982. She serves on the Board of the Institute of Corporate Directors. Her current appointment expires in February 2009.

Prof. Paul K. Bates — Appointed 06/03

Dean and Professor in Financial Management Services at the Michael G. DeGroote School of Business at McMaster University, Prof. Bates is a veteran of the Canadian investment industry and serves on boards in both the for-profit and not-for-profit sectors. He is Chair of the OSC's Compensation Committee. His current appointment expires in June 2006.

Robert W. Davis, FCA — Appointed 11/99

Currently President of Camiton Inc., Mr. Davis is a former Chief Operating Partner of the accounting firm of Peat, Marwick, Mitchell & Co. He is Chair of the OSC's Audit and Finance Committee. His current appointment expires in November 2005.

Audit and Finance Committee

- Robert W. Davis (Chair)
- M. Theresa McLeod
- Robert L. Shirriff
- Suresh Thakrar

Governance and Nominating Committee

- H. Lorne Morphy (Chair)
- Paul K. Bates
- Harold P. Hands
- Suresh Thakrar
- Wendell S. Wigle

Compensation Committee

- Paul K. Bates (Chair)
- Robert W. Davis
- Harold P. Hands
- Robert L. Shirriff

Adjudicative Committee

- Paul M. Moore (Chair)
- M. Theresa McLeod
- H. Lorne Morphy
- Wendell S. Wigle
- Susan Wolburgh Jenah

Harold P. Hands LL.B.

Appointed 04/02

Mr. Hands served as the senior legal officer at Mackenzie Financial Corporation from 1987 until his retirement in 2001. He is a former Chair of the Investment Funds Institute of Canada. His current appointment expires in April 2005.

M. Theresa (Terry) McLeod, MBA, CFA

Appointed 11/99

Mrs. McLeod was formerly a Managing Director of ScotiaMcLeod Inc. and of Merrill Lynch Canada Inc., and a Vice President and Director of Pitfield, Mackay, Ross Limited. In March 2004, she was appointed Lead Director of the Commission. Mrs. McLeod's current appointment expires in October 2005.

H. Lorne Morphy, Q.C.

Appointed 07/01

A member of the Ontario Bar since 1962, appointed Queen's Counsel in 1975, and a Fellow of the American College of Trial Lawyers, Mr. Morphy is counsel to the Toronto office of Davies Ward Philips & Vineberg LLP. He is Chair of the OSC's Corporate Governance and Nominating Committee. His current appointment expires in July 2007.

Robert L. Shirriff, Q.C.

Appointed 03/02

A member of the Ontario Bar since 1958 and appointed Queen's Counsel in 1971, Mr. Shirriff is a partner and past Chair of the law firm Fasken Martineau DuMoulin LLP. He also serves as Chair of the De Beers Group of Companies in Canada. His current appointment expires in March 2005.

Suresh Thakrar, MBA, FICB

Appointed 06/03

Mr. Thakrar, a former Vice-President of RBC Financial Group, has extensive experience in the financial services sector. He is currently engaged in a number of philanthropic activities and not-for-profit organizations in Canada and abroad. His current appointment expires in June 2006.

Wendell S. Wigle, Q.C.

Appointed 05/03

A member of the Ontario Bar since 1957 and appointed Queen's Counsel in 1972, Mr. Wigle is senior litigation counsel at Hughes, Amys LLP. He has served as President of the Advocates' Society (1977-78) and the Medico-Legal Society of Toronto (1984-85). His current appointment expires in May 2006.

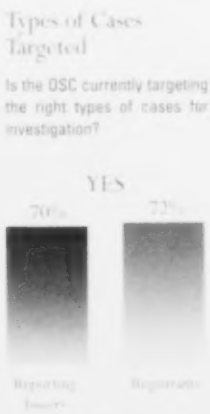
A MESSAGE FROM THE EXECUTIVE DIRECTOR

The Ontario Securities Commission has set out clear priorities, as outlined in our Chair's message. The role of staff is to achieve these goals as effectively and efficiently as possible. This entails focusing our resources on crucial areas, such as enforcement, as well as looking for opportunities to improve effectiveness throughout the organization.

Solid Progress in Enforcement

A vital part of the OSC mandate is to bolster investor confidence and one of the most important steps we have taken to achieve this is to build up our enforcement capabilities. Our efforts have led to measurable results. This fiscal year, we opened 262 new enforcement cases and closed 250 cases. Since becoming self-funded in 1998, we have launched quasi-criminal proceedings against 20 individuals, of whom eight were jailed, three were convicted with other sanctions imposed, and the other nine continue to face ongoing proceedings. Over the same period, we have cut the average time it takes to complete investigations by more than a third, from 20 months to 13 months. We have also reduced our average time involved in bringing cases to trial from 15 months to 11 months. These results reflect our decision to allocate additional resources to the Enforcement Branch.

However, one thing that does not show in the statistics is the number of times we were able to prevent harmful conduct altogether. The OSC is a leader among securities regulators in having established an Intelligence Team within our Enforcement Branch, devoted to identifying dubious operations in their early stages. We have already had some success stopping activities that could have led to investor harm. Indeed, many of the tasks we take on are preventive in nature, including investor education initiatives aimed at seniors and young people.



Source: OSC Stakeholder Satisfaction Study June 2004, Ipsos-Reid Public Affairs

Improving Our Effectiveness

All of our branches have been busy in the past year making the improvements necessary to meet our strategic objectives. The Corporate Finance Branch, for example, recently underwent a major restructuring to better reflect our increasing emphasis on continuous disclosure. All three filing teams in the branch now carry out a mix of prospectus reviews, exemptive relief and continuous disclosure work, whereas previously only one team focused on continuous disclosure. This flexibility enables us to analyze and act on the new information companies are required to file under our investor confidence rules.

Our Capital Markets Branch made significant advances in its regulatory effectiveness. The Compliance Team fully implemented its risk-based approach to field reviews of market participants, allowing it to focus efforts on those identified as higher risk. The successful launch of the National Registration Database (NRD) has allowed our Registration staff to spend more of their time evaluating the suitability of applicants, instead of correcting the minor deficiencies that plagued applications in the old paper-based system.

Another new system launched in the spring of 2003 was SEDI, the System for Electronic Disclosure by Insiders. Like NRD, it replaces cumbersome paper forms with electronic submissions, allowing greater scrutiny to the contents of the filings. For investors, SEDI offers more timely information on insider trading activity, readily accessible for the first time on the Internet.

In its first full year of operations, our Investment Funds Branch successfully managed an unusually heavy workload. Policy development work included a proposed instrument that would harmonize and simplify continuous disclosure obligations for all investment funds, as well as a proposed rule that would establish independent committees to review conflicts of interest. In addition, the branch has led our mutual fund probe in association with our Compliance and Enforcement Teams. Having observed evidence of illegal mutual fund practices

occurring in the U.S. last year, we initiated this probe to determine whether trading abuses have taken place here, as well as to assess whether Canadian mutual funds have effective policies and procedures in place to detect and prevent trading abuses. The three-phase probe, which has culminated in on-site visits, is an important step in ensuring investor confidence in the Canadian mutual fund industry.

Charles F. Macfarlane
Executive Director

Working with Stakeholders to Achieve Better Outcomes

The Fair Dealing Model Concept Paper we released last year called for some significant changes in the way we regulate the relationship between advisers and individual investors. However, for our ideas to achieve the level of practicality and cost effectiveness we believe are essential, stakeholder input was clearly needed. There are currently six working groups, totaling over 170 individuals from across the industry, meeting regularly to work through specific implementation issues. As a direct result of their feedback, we have decided to focus our immediate efforts on four key principles of the Fair Dealing Model: clarity of the investor-adviser relationship; transparency of compensation and conflict; transparency of performance against promise; and a simplified, harmonized and streamlined approach to registration.

Stakeholder consultation is not a novel idea for us. We have long sought the advice of experts to help ensure we are addressing the issues of greatest importance to the marketplace in the most efficient manner. Regular consultations allow us to gain valuable feedback on our methods and on the policy initiatives we put forward. Last year, we established an Enforcement Advisory Group and a Registration Advisory Committee, bringing our total to 15 active consultative committees.

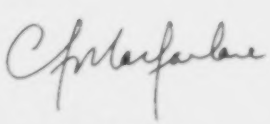
We are well aware that our stakeholders are interested in more than providing us with information and advice. They are entitled to expect the highest standards of customer service, as well as a fair and flexible resolution of their concerns. These principles have always been important to us and this year we are formally recognizing them in our Service Commitment, reproduced on page 25.

Working Together Nationally

While debate continues on what form securities regulation should ultimately take in Canada, we continue to work with our counterparts in other provinces to integrate our efforts as effectively as possible under the current system. Last year the Canadian Securities Administrators (CSA) took several steps to becoming a more structured organization. A formal governance structure has been put in place, under which the CSA Chair and Vice-Chair are elected for two-year terms. To oversee strategic issues, we established a Policy Coordination Committee, initially chaired by David Brown. The new permanent secretariat, based in Montreal, is intended to provide the organizational stability necessary for the effective functioning of a multi-jurisdictional organization. And working out of our facilities, the CSA Systems Project Office manages the relationship with the Canadian Depository for Securities, which operates the System for Electronic Document Analysis and Retrieval (SEDAR), NRD and SEDI.

These are just a few of the ways we've refined our methods and improved our execution. We will continue to do whatever it takes to achieve the OSC's strategic goals and, in pursuing them, will continually seek to ensure a committed, skilled and diverse workforce.

I'm grateful to our staff for rising to meet the challenges of the past couple of years. Based on the way they've responded, I am more confident than ever in our ability to deal with the issues that lie ahead. I look forward to continuing to make progress in the coming year, by focusing on doing the right things right.



Charles F. Macfarlane
Executive Director, Ontario Securities Commission

WHO WE ARE AND WHAT WE DO

To effectively carry out its mandate, the Ontario Securities Commission is organized into 10 branches. Led by individuals with specialized and diverse backgrounds, these operating units are able to foster a depth of expertise in their areas of responsibility. Staff members also pride themselves in their ability to work effectively with other branches on matters of joint concern.

A complete organizational chart, including individual contact information, is available on the inside back cover of this report.

Randee Pavalow
Director, Capital Markets

Capital Markets

The Capital Markets Branch establishes the regulatory framework for the operation of dealers, advisers, markets and self-regulatory organizations. It consists of three teams: Registrant Regulation, Compliance and Market Regulation. The Registrant Regulation Team sets requirements and evaluates applications from firms and individuals seeking to trade or advise in Ontario. The Compliance Team performs sweeps of market participants and conducts reviews of fund managers and advisers to identify and resolve issues and ensure compliance with securities laws. The Market Regulation Team oversees exchanges, other markets, clearing and settlement agencies and self-regulatory organizations, and deals with derivatives issues.

Margo Paul
Director, Corporate Finance

Corporate Finance

The Corporate Finance Branch is responsible for the regulation of reporting issuers. Staff oversees public offerings of securities through a review of prospectuses and rights offering documents, and the ongoing dissemination of information by reporting issuers through a review of their continuous disclosure materials. The branch also monitors compliance with securities laws in takeover bids and mergers and acquisitions, regulates the exempt market and takes a lead role in issuer-related policy initiatives.

Susan Silma
Director, Investment Funds

Investment Funds

The Investment Funds Branch was established in 2003 to oversee a sector of growing significance in our capital markets. Staff regulates the offering of investment funds (including conventional mutual funds) in Ontario through prospectus reviews and exemption applications. The branch also develops new rules and policies to adapt to the changing environment in the investment fund industry.

Michael Watson, Q.C.
Director, Enforcement

Enforcement

With the objective of protecting investors and promoting market integrity, the Enforcement Branch ensures that Ontario securities laws are upheld through equitable and effective enforcement. The branch's Surveillance and Case Assessment Teams generate and evaluate leads on potential violations, and determine whether they warrant referral to the Investigations Team for more detailed review. The Litigation Team initiates and conducts formal proceedings against alleged violators.

Communications

The Communications Branch works closely with the Chair's Office and Commission branches to provide strategic communications advice and counsel and to ensure that all OSC stakeholders are kept well informed of Commission activities and policies. Responsibilities of the Communications Branch include management of media relations, speeches, investor communications, public inquiries and complaints, special events, publications and the OSC website.

Wendy Dey
Director, Communications

Corporate Services

The Corporate Services Branch builds and maintains the core internal systems and infrastructure necessary for OSC staff to work effectively and efficiently. The branch's areas of responsibility include information technology, finance and accounting, business planning and reporting, records, the Commission library, as well as office and administrative services. Ken Gibson became Director, Corporate Services effective August, 2004.

Ken Gibson, CA
Director, Corporate Services

General Counsel's Office

The General Counsel's Office is an in-house legal and policy resource, providing senior legal advice and assistance on operational, transactional and regulatory issues to the Executive, Commission and staff. The GCO also leads policy projects – including legislative reform – and supports the branches in the policy development process. Monica Kowal became the OSC's General Counsel effective August, 2004.

Monica Kowal
General Counsel

Office of the Chief Accountant

The Office of the Chief Accountant provides specialized advice on financial reporting and related policy issues to the Chair, the Commission, staff and market participants, particularly on matters relating to the form and content of financial statements and audit reports filed with the Commission. The Chief Accountant is also responsible for overseeing the Commission's relationships with accounting and auditing standards-setters and the accounting profession nationally and internationally.

John A. Carchrae, CA
Chief Accountant

Office of the Chief Economist

The Chief Economist and his team work with OSC staff and external stakeholders to prepare detailed cost-benefit analyses of significant policy projects, designed to help the Commission select the most appropriate course of action. In addition, the Office of the Chief Economist provides analytical support to the Chair, Commission and staff on policy and operational initiatives; engages in fundamental research on the capital markets; and seeks to foster external study of securities issues.

Randall Powley
Chief Economist

Office of the Secretary

Reporting directly to the Chair, the Office of the Secretary to the Commission is responsible for ensuring the fair, impartial and efficient operation of the Commission's administrative proceedings, reviews and appeals; providing corporate secretarial services to the Commission's Board; and administering the request for comments procedures.

John P. Stevenson
Secretary

MAKING A DIFFERENCE THROUGH LEADERSHIP

Investor Confidence and Corporate Governance

The buoyancy of our capital markets depends upon investors having reason to believe they have a fair opportunity to generate a return. Regulators must ensure that the conditions are in place for investors to have that kind of confidence. This has been especially important and challenging over the past several years in light of a number of high profile issues in the United States – including the major financial reporting scandals and the illegal mutual fund trading practices uncovered last year.

Developed New Investor Confidence Rules

"David Brown, Chair of the OSC, was instrumental in the creation of CPAB, whose mission is to raise investor confidence in the integrity of financial reporting by overseeing auditors of public companies."

Gordon Thiessen,
Chair,
Canadian Public Accountability Board

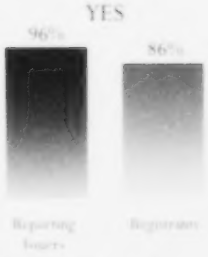
To promote investor confidence, the OSC and other regulators introduced measures to strengthen the disclosure and governance practices of Canadian public companies. Three new rules, which came into force at the end of the fiscal year, establish the following requirements:

- Chief executive officers and chief financial officers of all Canadian companies are required to certify that their issuer's annual and interim filings do not contain a misrepresentation and that they fairly present the issuer's financial condition.
- Listed companies must have audit committees made up of at least three directors who are independent and financially literate. However, given the burden this could constitute on their resources, Canadian companies listed on the TSX Venture Exchange are exempt from parts of this rule.
- Issuers are required to have their financial statements audited by auditors who are registered with and meet the requirements of the recently founded Canadian Public Accountability Board, including being subjected to regular inspections.

While these rules echo the principles of the U.S. Sarbanes-Oxley legislation, they are tailored to reflect the unique Canadian business environment. A good example is the modification of the Audit Committee rule for smaller issuers.

Awareness of Investor Confidence Rules

Last year the OSC introduced new rules to improve investor confidence. Have you seen, read or heard anything about these new rules?



Source: OSC Stakeholder Satisfaction Study June 2004, Ipsos-Reid Public Affairs

Released Corporate Governance Guidelines

To promote high quality governance standards, we are in the process of completing a corporate governance policy establishing benchmarks against which issuers will be required to disclose their practices and explain departures. The proposed best practices include measures – evolved through legislative and regulatory reforms and initiatives of other capital market participants – related to board composition, mandate and committees; director education and assessment; and codes of business conduct and ethics. We are working with the TSX to avoid regulatory duplication and overlap in the monitoring and enforcement of these governance standards and related disclosure requirements.

Initiated Mutual Fund Trading Practices Probe

To reassure Canadian investors that their confidence in our mutual fund industry is justified, we are working with other regulators to examine this industry to determine the effectiveness of policies and procedures in place to detect and prevent trading violations. We launched a three-stage probe in November, 2003 in immediate response to the U.S. scandal involving late trading and market timing. Based on the results of the probe, which included examination of funds' internal policies and procedures, as well as the examination of trading data, a policy response will be considered and enforcement actions will be undertaken, if justified.

Mutual Fund Governance

Since the publication of a Concept Proposal in 2002, the Canadian Securities Administrators (CSA) have been moving towards the adoption of a fund governance regime for publicly offered mutual funds in Canada. This year, a major step was taken when the CSA published a proposed rule (National Instrument 81-107) to require mutual funds to establish governance structures that focus on managing and resolving conflicts of interest. Under the proposed rule which the OSC participated in developing, each mutual fund manager would be required to establish an independent review committee charged with reviewing all matters involving a conflict of interest between the fund manager's own commercial or business interests and its fiduciary duty regarding its mutual funds.

Regulatory Innovation: The Fair Dealing Model

Most would agree that marketplaces change rapidly, while regulatory models typically do not. The OSC continues to regulate dealers and advisers through the products they sell, based on the old assumption that transaction execution is the primary reason people seek the services of the investment industry. But the industry has largely evolved to an advice-driven business model. To meet the needs of the market, we, as regulators, must occasionally make fundamental changes in our thinking about the activities we regulate.

Last year, we released a Concept Paper that proposes a unique approach for regulating the retail investment industry on the basis of entire relationships rather than individual products or transactions. Our next step, in cooperation with other CSA members and self-regulatory organizations, is to develop proposals that would support four key principles: clarity of the investor-adviser relationship; transparency of compensation and conflict; transparency of performance against promise; and a simplified, harmonized and streamlined approach to registration.

We expect regulation based on these principles to offer significant advantages. Investors should be able to make more informed decisions. Advisers would benefit from clearer conduct standards to guide their activities and strengthened relationships with their clients. And with better information about relationships and account performance, we anticipate seeing fewer disputes between financial services providers and investors.

A Harmonized Regulatory Approach

One of the most common concerns market participants express to us is their desire for regulatory harmonization across Canada. In fact, regulators share this goal. The OSC and our counterparts in the other provinces and territories continue to make progress towards minimizing inconsistencies in regulations across the country.

National Instruments

An approach to regulatory consistency that has proven very effective among CSA members is collaboration on national instruments applicable to specific areas of the law. There are now approximately 25 national instruments, covering a wide range of issues. As an example, at the end of this fiscal year we implemented a new rule (National Instrument 51-102) that harmonized and strengthened continuous disclosure requirements across the country. Before it came into force, issuers that reported in more than one province faced different disclosure rules in each jurisdiction. Now there is a single set of rules across Canada.

Harmonization was not the only objective of NI 51-102. We also raised the bar on disclosure standards, tightening filing deadlines and increasing content requirements. Yet we maintained an appropriate level of flexibility by granting TSX Venture issuers exemptions from some of the most rigorous requirements. The net result is that investors will receive higher quality information on a more timely basis. Better disclosure should strengthen investors' confidence in Canadian capital markets.

Uniform Securities Legislation

Taking this collaborative approach to its logical conclusion, two years ago the CSA members resolved to draw up a comprehensive set of uniform laws aimed at replacing the securities legislation in each province. The objective was not only to harmonize the existing provisions, but also to bring the requirements up to date and, where possible, to consolidate and simplify the numerous rules, policies and notices. This fiscal year, the CSA released a consultation draft of a Uniform Securities Act that the CSA proposes be further developed and then recommended to the legislatures of each jurisdiction.

The exercise of regulators cataloguing and eliminating all the discrepancies among the existing Acts clearly illustrated the challenges others face in navigating through those same requirements. Uniform securities legislation would represent a major step towards reducing regulatory duplication, allowing market participants to focus less on understanding multiple regulations and more on servicing their clients and running their business.

Single Securities Regulator

As valuable as uniform securities legislation would be, it would still leave us with a system in which market participants support 13 regulators, each with the capacity to apply rules differently to similar situations. We would still face a situation where any one jurisdiction could add to the regulatory burden of all participants across the country. The situation is unique to Canada and Bosnia-Herzogovina, the two jurisdictions among the more than 110 represented in the International Organization of Securities Commissions (IOSCO) to lack a national or supranational securities regulator.

The past year was one characterized by considerable national debate regarding this issue. Along with other securities regulators and institutions with an interest in this issue, the OSC submitted a brief to the Wise Persons' Committee on securities regulation, which was constituted by the federal Minister of Finance to examine the future of financial regulation. The Committee's recommendation for a single securities regulator did much to increase the focus on this issue and the sense of urgency surrounding it. The OSC will continue to support the Ontario Government as it participates in this debate.

A Cooperative Approach

One of the key trends the OSC must deal with is the global integration of capital markets and market participants. Borders no longer serve as barriers to the flow of capital – or, unfortunately, to those who would like to take advantage of investors. For this reason, it is important for regulatory bodies to work together across provincial and national borders and to work more closely than ever with other enforcement agencies.

To foster attractive capital markets, we need to maintain a globally competitive regulatory regime that provides adequate investor protection. One of the ways to do this is to build relationships in the international regulatory community. This has become an even more urgent concern in the aftermath of the terrorist events of September 11, 2001.

"Canadian securities regulators, in particular David Brown, have pushed hard to have key elements of Sarbanes-Oxley adopted in Canada, thus maintaining the convergence between our systems and ensuring that the Multijurisdictional Disclosure System (MJDS) could continue."

Roel C. Campos,
Commissioner,
U.S. Securities and Exchange Commission,
adapted from a speech at Harvard Law School,
Nov. 15, 2003

International Cooperation

The OSC participates in a variety of international organizations that work to improve the regulation of financial services throughout the world. As one of more than 160 ordinary, associate and affiliate members of IOSCO, we interact directly with our peer associations, sharing expertise and building global cooperation. After 9/11, IOSCO focused significant resources on identifying challenges to international regulatory cooperation, particularly in the enforcement area. IOSCO is also assisting regulators to improve their ability to cooperate through relaxation of secrecy laws and by overcoming other impediments to cooperation.

We also participate in the International Joint Forum of Financial Market Regulators, which brings together regulatory agencies from the banking, insurance and securities sectors to deal with issues of common concern, such as closing any regulatory gaps that could arise because of different regulatory approaches. The OSC is the only Canadian securities regulatory authority on the International Joint Forum.

As a member of the Council of Securities Regulators of the Americas (COSRA) and the North American Securities Administrators Association (NASAA), we work with other regulators to promote strong, fair and efficient capital markets in North, Central and South America and the Caribbean through initiatives tailored to the needs of regulators and market participants in these regions.

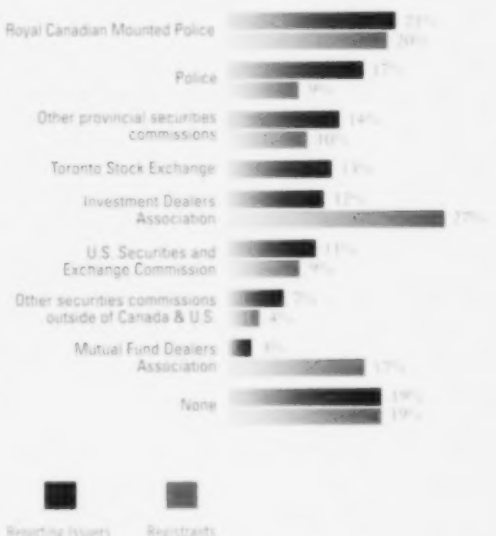
Working with Other Enforcement Agencies

The combined efforts of the enforcement arms of the world's securities regulators amount to a formidable force. Internationally and domestically, we have been working towards improving the level of coordination among existing regulatory and law enforcement agencies. A concerted effort is especially important in Canada because responsibility is divided among many authorities at the local, provincial and federal levels, while fraud and similar crime respect no such boundaries.

We are seeing encouraging signs of closer cooperation among Canada's federal and provincial governments, financial regulators and police forces. Several of these groups are working together on projects like the Integrated Market Enforcement Teams (IMETs) and the Insider Trading Task Force. White-collar crime has been identified as a greater priority for law enforcement agencies. Everyone recognizes that protection of innocent investors and safeguarding our capital markets are goals that matter to all Canadians. A current focus for us is the promotion of increased cooperation, and the establishment of clearer authority and responsibility for combatting economic crime.

Priorities: Enforcement Approach

Which – if any – other bodies, agencies or organizations do you think the OSC should consult and involve in their investigations and enforcement of the *Securities Act*?



Source: OSC Stakeholder Satisfaction Study June 2004, Ipsos-Reid Public Affairs

ENFORCEMENT REVIEW

Strengthening Our Enforcement Efforts

The role of the OSC's Enforcement Branch is to facilitate the fair and effective enforcement of Ontario's securities laws. To help achieve that, over the last six years we have doubled our enforcement staff. We have also introduced a filtering system, including risk-based criteria, for determining which cases pose the greatest threat to the integrity of Ontario's capital markets. This ensures focus on priority cases and the most effective use of resources.

We have also strengthened our surveillance capabilities and enhanced our technological resources. For example, the Intelligence Unit, which is part of the Surveillance Team, scrutinizes market activity and matches information about people and events. Its mandate is to look for warning signs of unlawful conduct and prevent infractions, protecting investors and avoiding the need to prosecute wrongdoers after the fact.

Unveiled Insider Trading Task Force Report

The OSC joined with other regulatory bodies and enforcement agencies on the Insider Trading Task Force, which was established to examine how to deal more effectively with illegal insider trading in Canadian capital markets. The task force made 32 recommendations for preventing, detecting and deterring illegal insider trading. Implementation of these recommendations will help assure investors that they are dealing in a fair market. A number of key recommendations include:

- encouraging strict adherence to information containment practices in order to reduce the number of people who have knowledge of inside information;
- providing investors with access to trading data using markers to identify trades by insiders;
- improving surveillance capabilities through a shared database among regulators; and
- implementing measures to reduce the use of offshore accounts in illegal insider trades.

Integrated Market Enforcement Teams

Our joint venture with the RCMP over the past three years to combat securities fraud is starting to yield results. A number of cases are in development which neither organization would likely have been able to pursue on its own. This will result in greater protection to investors in our market.

"Our joint Intelligence Unit and now our IMET are examples of how the RCMP and the OSC are deterring market fraud through enhanced criminal enforcement."

RCMP Superintendent **Craig Hannaford,**
Officer in Charge of the Greater Toronto Area IMET

As part of a $120 million program that the federal government announced this year, Canada's first ever Integrated Market Enforcement Teams (IMETs) have been set up in Toronto and are being deployed in other major Canadian cities. Ultimately, we will have three IMETs operating in Toronto.

These teams are designed to respond swiftly to major capital market fraud and market-related crimes and are composed of highly skilled RCMP investigators, lawyers and other investigative experts, as well as securities regulators, federal and provincial authorities and local police.

We are building further on our cooperation with federal law enforcers. The Enforcement Branch is providing staff and general expertise to the IMETs to contribute to specialized, rapid and coordinated enforcement action by the relevant federal, provincial and local authorities.

Enforcement Highlights

This chart outlines the number of files handled by each team in the Enforcement Branch.

Team	Open as at April 1, 2003	New Files Opened	No. of Files Closed	Total No. of Active Files
Case Assessment	41	105	104	42
Surveillance	47	91	86	52
Investigations	33	30	30	33
Litigation	51	36	30	57
TOTAL	172	262	250	184

The following pages summarize a number of noteworthy enforcement matters handled by the Commission in fiscal 2003/2004.

Insider Trading Cases

Michael Cowpland and M.C.J.C. Holdings Inc.

On February 11, 2002, **M.C.J.C. Holdings Inc.** pleaded guilty in the Ontario Court of Justice in Ottawa to the offence of insider trading with knowledge of an undisclosed material fact and was fined $1 million. Charges against **Michael Cowpland**, a director and officer of M.C.J.C. Holdings Inc., were withdrawn.

Subsequently, in a separate proceeding, the Commission heard joint recommendations of staff of the Commission and M.C.J.C. Holdings Inc. and Michael Cowpland in respect of allegations of illegal insider trading. The Commission accepted the joint recommendations which required the respondents to pay $500,000 to the Investor Education Fund and to pay $75,000 towards the Commission's costs. Mr. Cowpland was prohibited from becoming or acting as a director of any issuer for two years. The Commission also reprimanded M.C.J.C. Holdings Inc. and Mr. Cowpland.

Glen Harvey Harper

The Court of Appeal for Ontario released its decision on the sentence appeal in the matter of **Glen Harvey Harper**. Mr. Harper had been convicted in the Ontario Court of Justice on two counts of insider trading in relation to his trading of shares in Golden Rule Resources Inc. On appeal, Mr. Harper's term of imprisonment was reduced to six months on each count and the fine was reduced to $1 million on each count. The Court of Appeal agreed with the Commission on its interpretation of the fining provisions in the *Securities Act* but did not interfere with the reduced fine imposed by the summary conviction appeals judge.

Subsequently, a notice of hearing before the Commission and statement of allegations were issued against Mr. Harper in relation to his insider trading. The Commission concluded that Mr. Harper engaged in deceit upon the capital markets and upon the investors of Golden Rule Resources Inc. The Commission ordered that Mr. Harper be prohibited from becoming or acting as a director or officer of any issuer for 15 years and that trading in any securities by Mr. Harper cease for 15 years, with certain specified trading exceptions.

Daniel Duic

The Commission approved a settlement agreement between **Daniel Duic** and staff of the Commission. Mr. Duic admitted to insider trading contrary to the *Securities Act* in that he had traded in securities based on undisclosed material information. Mr. Duic made a settlement payment of $1,900,000 and paid $25,000 towards costs. The Commission reprimanded Mr. Duic and ordered that trading in any securities by Mr. Duic cease permanently, with limited exceptions, and that Mr. Duic be permanently prohibited from becoming or acting as a director or officer of any issuer.

Andrew Rankin

In February, 2004, **Andrew Rankin** was charged in the Ontario Court of Justice with 10 counts of insider trading and 10 counts of "tipping" information contrary to the *Securities Act*. The matter has yet to be heard in court.

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Andrew Rankin

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Jonathan Carley

The Commission approved a settlement agreement between staff of the Commission and **Jonathan Carley**. Mr. Carley admitted that he purchased securities of Finline Technologies Limited with knowledge of an undisclosed material fact or change. The Commission reprimanded Mr. Carley and made an order prohibiting him from trading in securities for 18 months. In addition, Mr. Carley agreed to make a voluntary payment of $89,400, which represented one and a half times the profit he made, and a payment of $20,000 towards the Commission's costs.

Temporary Cease Trade Orders

Discovery Biotech Inc. and Graycliff Resources Inc.

On June 4, 2003, the Commission issued a temporary order prohibiting trading in **Discovery Biotech Inc.** common shares by Discovery and **Graycliff Resources Inc.** and their respective employees and agents. The temporary cease trade order has been extended until further order of the Commission. It is alleged that the common shares of Discovery were being sold to members of the public in breach of the *Securities Act*. It is also alleged that agents or employees of Discovery and/or Graycliff were making prohibited representations respecting the future value of Discovery common shares and their anticipated future listing on NASDAQ.

On June 2, 2004, charges were laid in the Ontario Court of Justice against Discovery Biotech Inc. and **Orest Lozynsky**, **Robert Vanderberg** and **Howard Rash** in relation to the conduct above.

Mark Edward Valentine

The Commission has issued successive temporary cease trade orders against **Mark Edward Valentine**, former Chair of Thomson Kernaghan & Co. The latest order prohibits him from being registered under the *Securities Act* and restricts his trading pending the hearing into the matter or October 31, 2004, whichever comes first.

Other Notable Cases

More Participants in the Saxton Matter Sanctioned

The Commission approved a number of settlement agreements reached between staff of the Commission and some respondents in the Saxton matter.

Robert Davies, a chartered accountant and Saxton Investment Ltd.'s controller, failed to maintain proper books and records and to ensure that basic accounting controls were in place. Mr. Davies knew that quarterly account statements delivered to investors were unsubstantiated by any accounting or financial data in Saxton's possession and that the statements were misleading. The Commission ordered that Mr. Davies be prohibited from becoming or acting as a director or officer of any issuer for 10 years and imposed a 10-year cease trade order (with the exception of trading for his personal accounts after three years). The Commission also reprimanded Mr. Davies and ordered him to pay costs in the amount of $2,000.

Michael Hersey, a licensed insurance agent, participated over three and a half years in three illegal distributions and engaged in unregistered trading of various securities. Among other things, Mr. Hersey misrepresented the nature and quality of the Saxton securities to his clients. The Commission ordered that Mr. Hersey be prohibited from becoming or acting as a director or officer of any issuer for 20 years and imposed a 20-year cease trade order (with the exception of certain trading in his personal accounts after five years).

Normand Riopelle, a licensed life insurance agent, sold $505,700 worth of Saxton securities to 11 of his insurance clients. He failed to conduct the appropriate due diligence respecting the nature and quality of the Saxton products and the regulatory requirements to sell such products. The Commission reprimanded Riopelle and imposed an 11-month cease trade order.

Chair and CEO Banned Permanently

The Commission issued reasons for its decision in the matter of **Jack Banks** a.k.a. Jacques Benquesus on April 23, 2003. The Commission found that Mr. Banks' failure to take immediate steps to contain a dangerous situation suggested strongly that Mr. Banks was indifferent to the foreseeable consequences to others in the marketplace and was motivated solely by the monetary benefit that Laser Friendly Inc. hoped to secure for itself.

The Commission ordered Mr. Banks to resign any positions he held as a director or officer of any issuer and that he be prohibited permanently from becoming or acting as a director or officer of any issuer. The Commission also ordered Mr. Banks to cease trading in securities permanently and reprimanded Mr. Banks. Mr. Banks served a notice of appeal but no steps have been taken to perfect the appeal within the time prescribed by the Court.

Permanent Cease Trade Orders for Failure to be Registered

The Commission approved a settlement agreement between staff of the Commission and **Teodosio Vincent Pangia**, **Agostino Capista** and **Dallas/North Group Inc.** The proceeding involved the sale of shares in EPA Enterprises Inc. Each of the respondents breached the *Securities Act* by selling shares without being registered to trade in securities. In addition, Mr. Pangia breached the *Act* by participating in the distribution of securities without filing and obtaining receipts for a preliminary prospectus and a final prospectus. The sanctions included permanent cease trade orders against all three respondents, permanent prohibitions against Mr. Pangia and Mr. Capista from acting as a director or officer of any issuer, and the payment of $70,000 towards the Commission's costs.

Donnini Leave to Appeal Granted

On September 15, 2003, the Ontario Divisional Court issued a decision in the appeal by **Piergiorgio Donnini** of the Commission's decision issued September 12, 2002. The Court upheld the Commission's finding on liability. However, the Court reduced the term of the suspension from 15 years to four years and directed that the matter of costs be referred back to the Commission. The Commission has been granted leave to appeal the Divisional Court decision to the Ontario Court of Appeal.

Supreme Court of Canada Releases Decision in Philip Services

On October 31, 2003, the Supreme Court of Canada dismissed the appeal brought by **Deloitte & Touche LLP** in relation to a pre-hearing disclosure decision by the Commission in the matter of **Philip Services Corp et al.** The Supreme Court of Canada upheld the Commission's decision to order disclosure to the respondents of information obtained by staff of the Commission from Deloitte & Touche, a third party, during an investigation. This information was considered relevant for the purposes of the proceeding.

High Yield Program Traded by Unregistered Individuals

On March 22, 2004, the Commission issued its reasons in the matter of **Patrick Fraser Kenyon Pierrepont Lett**, **Milehouse Investment Management Limited** and **Pierrepont Trading Inc.** The Commission held that the respondents, none of whom were registered as required under the *Securities Act*, traded a high-yield program defined under the *Act* as a security. The Commission ordered that Mr. Lett resign from any positions he holds as a director or officer of any issuer or registrant and be prohibited from any such position for 15 years. The Commission imposed a 15-year cease trade order on Milehouse and Pierrepont, companies controlled by Mr. Lett, and a 10-year cease trade order on Mr. Lett (subject to certain conditions). The Commission also reprimanded Mr. Lett and ordered him to pay costs in the amount of $150,000.

Priorities: Enforcement Approach
What do you think should be the top priority for the OSC's enforcement branch?
Taking proactive steps, such as monitoring market activities, to prevent violations of the Securities Act
Punishing those who violate the Securities Act with fines or imprisonment
Punishing those who violate the Securities Act by permanently prohibiting their access to markets
Where innocent investors have lost money due to a violation, getting and returning their money
Reporting Issuers
Registrants

Source: OSC Stakeholder Satisfaction Study June 2004, Ipsos-Reid Public Affairs

ACHIEVEMENTS

These pages highlight some of the OSC's major initiatives during the fiscal year, in addition to the accomplishments mentioned elsewhere in this annual report. For a full review of planned activities for the coming year, see our Statement of Priorities and Initiatives for 2004/2005 on our website at www.osc.gov.on.ca.

Completed Targeted Continuous Disclosure Reviews

Following a review of the Management's Discussion and Analysis (MD&A) of 47 issuers, OSC staff issued a notice outlining the most common deficiencies observed and providing guidance on improving the quality of MD&A. In a separate project, Canadian Securities Administrators (CSA) staff reviewed the continuous disclosure records of income trusts, a popular investment vehicle in recent years. Of the 40 income trust issuers reviewed, nearly three quarters committed to change their disclosure practices in future filings, while two were required to refile disclosure documents. More generally, OSC staff met our goal of reviewing 25 per cent of Ontario-based issuers annually. We recorded certain outcomes of those reviews on our website "Refilings and Errors" list.

Issued Guidance on Income Trust Requirements

In a proposed national policy, the CSA clarified its views on how existing securities regulations apply to income trusts and other indirect offering structures. Topics covered include prospectus disclosure and liability, continuous disclosure and sales and marketing materials. The policy is intended to minimize inconsistent interpretations and to better ensure that the intent of the regulatory requirements is clearly outlined.

Proposed Harmonized Requirements for Continuous Disclosure by Investment Funds

Following the comment period on the first draft, CSA staff published a revised draft of National Instrument 81-106 *Investment Funds Continuous Disclosure*. The rule will simplify compliance for fund companies by consolidating and harmonizing the disparate requirements currently contained in various instruments, policies and local rules. Investors will benefit from improved analysis of their funds' operating results and investment performance, in part due to a new requirement for annual and interim management reports of fund performance.

Worked with Other Regulators Through the Joint Forum

Staff continue to work with the Financial Services Commission of Ontario (FSCO), several CSA members, and other Canadian financial regulators on initiatives of common concern through the Joint Forum of Financial Market Regulators. Progress on joint initiatives includes: the development of principles and practices for the sale of products and services in the financial sector; point of sale disclosure for segregated funds and mutual funds; and guidelines for capital accumulation plans. The next steps are for the constituent groups of the Joint Forum to propose implementation of these initiatives.

Strengthened International Cooperation to Fight Illegal Securities Activities

In October 2003, the OSC was announced as one of the original signatories to the first multilateral memorandum of understanding for securities regulators (MMOU) regarding cooperation in investigations into illegal securities activities. The MMOU had been adopted by the International Organization of Securities Commissions (IOSCO) in May 2002. OSC staff are part of the team of IOSCO experts that evaluates the ability of applicants to comply with its terms and monitors signatories' compliance. OSC staff are also working with their IOSCO colleagues on a project addressing the powers of regulators and other authorities to freeze and repatriate the assets of those who engage in illegal securities activities.

Delivered Community Outreach and Public Awareness Initiatives

The Investor Communications Team distributed more than 9,000 information packages and directly reached more than 12,000 individuals across the province through seminars and other events. We increased our outreach capacity with the launch of the Staff Ambassadors program, through which 90 OSC staff members have been trained to make investor education presentations.

Improved Internal Risk Management Practices

The goal of our risk management strategy is to identify sources of OSC internal operational risk and develop appropriate measures and systems to effectively manage them. Our interim business continuity plan was designed to overcome a number of operational disruptions (e.g. SARS, power outages) with minimal impact on service delivery. We completed our business continuity plan, and offsite facilities will be in place in 2004. These measures will allow the OSC to continue critical regulatory services should we face a significant disruption to our operations.

Established a Policy and Project Office

The OSC Policy and Project Office (PPO) provides staff with project management advice, support and expertise for major OSC, CSA and Joint Forum initiatives. It also assists staff of other branches by reviewing proposed instruments early in the rule-making process to ensure accountability, quality control and consistency of drafting for all instruments. The PPO's Commission-wide tracking of projects will help senior management evaluate all projects against the OSC's strategic plan, prioritize them, and ensure adequate resources are assigned.

Established a Framework for Foreign-Based Stock Exchanges

In response to inquiries from foreign-based stock exchanges interested in operating in Ontario, staff issued a notice outlining a transparent, uniform approach to evaluating formal requests. The approach is designed to facilitate investor choice while maintaining high standards of investor protection and market integrity. It also seeks to avoid imposing duplicative and inefficient requirements on exchanges that are already subject to sufficient regulatory scrutiny in their home jurisdiction.

Advanced Preparations for Straight-Through Processing

The CSA published a discussion paper outlining the importance of straight-through processing (STP) to the efficiency and global competitiveness of Canada's capital markets, together with a proposed national instrument detailing regulatory approaches to help the industry achieve STP. We also conducted an industry survey that identified a need for market participants to become more proactive in their preparations for a planned conversion to STP.

Proposed a Mutual Reliance and Review System for Registration

Following last year's introduction of the National Registration Database (NRD), regulators continued to work on major reforms of Canada's registration regime. Under the National Registration System (NRS) proposal, filers would need only comply with the registration requirements applicable in a single jurisdiction – that of their principal regulator. National Instrument 31-101 ***Requirements under the National Registration System*** was approved by all jurisdictions and was published for comment in January 2004.

Expanded the Use of Economic Analysis

In fiscal 2003/2004, we began applying the techniques of economic analysis to new areas beyond cost-benefit and impact studies. Our economists worked with Enforcement staff to build a number of diagnostic tools to detect unusual trading activity and to apply econometric techniques to the investigation and litigation of specific cases. The Chief Economist's Office also developed a set of risk indicators that will help identify reporting issuers who may be improperly managing reported earnings.

ACCOUNTABILITY TO OUR STAKEHOLDERS

The OSC believes in holding itself to a standard of accountability that is at least as high as the level to which we hold businesses in our capital markets, taking into account the differences between our respective roles. To that end, we engage in several processes to test our accountability to market participants, including investors, reporting issuers and registrants. Key stakeholder accountability mechanisms include the following:

- Publishing an annual Statement of Priorities describing our goals for the current fiscal year and inviting stakeholder comment to ensure our priorities are consistent with those of the people we serve.
- Commissioning independent studies on stakeholder satisfaction and publishing the results in full.
- Consulting on an ongoing basis with our various advisory boards and market participants on policy matters and ways to improve how we serve our stakeholders.
- Participating in the independent Five Year Review Committee, mandated under Ontario's *Securities Act* to examine securities law in the province. Many recommendations of the Committee's 2003 report have been implemented including new powers for the OSC to impose fines for securities violations and to order offenders to disgorge their ill-gotten gains, and new rule-making powers resulting in three new investor confidence rules.
- The *Securities Act* also requires the Commission and the Minister responsible for the OSC to enter into a memorandum of understanding every five years outlining their respective roles and responsibilities.

"Our Committee is gratified to see political interest growing in creating one securities regulator and in providing tougher enforcement tools to regulators."

Purdy Crawford
Counsel,
Osler, Hoskin & Harcourt LLP,
Chair of the Five Year Review Committee

Continued to Improve Customer Service

While we believe strongly in the value of regulation to our securities markets and their participants, we also recognize the need to ensure that regulation does not become the cause of unnecessary cost or inefficiency. An initiative to minimize the burden of regulation was carried out in the form of the Regulatory Burden Task Force. Its mandate was to hold informal consultations on how the OSC could reduce regulatory burdens for market participants, without requiring legislative changes. We are giving priority to acting on many of the recommendations that will further improve customer service by removing burdens and costs, without sacrificing investor protection.

In fact, since the report was initially released in December 2003, we have increased the number of recommendations adopted by more than 33 per cent, while we continue to work on adopting a further 30 per cent. Beyond these measures, approximately 25 per cent of the recommendations require further examination and there are others that are beyond our mandate or require new legislation.

As part of our effort to instill a client-focused culture within the organization, and building on the recommendations from the Task Force, we developed a Service Commitment (shown on the opposite page) that gives our stakeholders a clear guarantee of what to expect from us – and what their recourse is if they feel we fall short.

OSC

Ontario Securities Commission

COMMITMENT TO QUALITY SERVICE

Our service commitment

The mandate of the Ontario Securities Commission is to provide protection to investors from unfair, improper or fraudulent practices and to foster fair and efficient capital markets and confidence in their integrity. We commit to delivering dependable, prompt and high-quality services. Our focus is on service excellence as measured against objective standards.

1. **Accessibility**

   We make it easy for you to contact us, and offer equal access to our services. We serve you in the official language of your choice.

2. **Respectfulness**

   We treat you with courtesy and respect. We recognize your needs and rights.

3. **Fairness**

   We are unbiased and thorough in all our decision-making processes. We strive to apply all rules and decisions fairly and consistently.

4. **Flexibility**

   We are innovative and flexible when addressing issues while balancing your needs with the public interest.

5. **Consultation**

   We request and consider your views when developing policy, including your views on how the policy should be implemented.

6. **Responsiveness**

   We have service standards against which you can measure our performance. We are constantly striving to improve our standards and will seek your views on what works well and what we need to improve.

How We Back Up Our Commitment

If you feel we have not lived up to our service commitment, please let us know. You may speak directly to the staff member with whom you were dealing or you may contact any member of our management team, including the Executive Director. No matter which person you choose to speak with, your decision will not influence our ability to be fair. If we make a mistake, we commit to set things right.

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"The OSC is playing a leadership role in strengthening the framework for corporate governance. Its initiatives are contributing to restoring investor confidence in Canada and assist boards in determining how they can best add value to the corporations they oversee."

Fred Gorbet,
CIT Chair in Financial Services and
Co-Director, Financial Services Program,
Schulich School of Business, York University

"The approach to corporate governance taken by the OSC has set in place a structure that will allow investors to have confidence in Canada's capital markets. Now it is up to our corporate directors to pick up the lead and put the rules to work. Together, we can create high performing boards and globally competitive Canadian organizations."

Beverly L. Topping,
President & CEO,
Institute of Corporate Directors

MANAGEMENT'S DISCUSSION AND ANALYSIS

The financial statements present the results of the Ontario Securities Commission (OSC) for the year ended March 31, 2004 with 2003 comparatives and accompanying notes. Unless otherwise specified, references to years, for example 2003, refer to the fiscal years of the OSC ended March 31. The following comments analyse the factors which affected the OSC's operations during 2004 as well as the factors that reasonably may be expected to affect future operations and results.

The document should be read in conjunction with the financial statements. Certain statements included in this annual report are forward looking and are subject to important risks and uncertainties. The results or events predicted in these statements may differ materially from actual results or events. Factors which could cause results or events to differ from current expectations are described in the risks and uncertainties section. Readers should note that assumptions, although reasonable at the time of publication, are not guarantees of future performance.

Overview

The Ontario Securities Commission is a corporation without share capital. The OSC functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the OSC is exempt from income taxes. The OSC's operations are funded through fees paid by securities market participants. Employee compensation and occupancy costs account for more than 80% of OSC expenditures.

The *Securities Act* requires the OSC to complete a Memorandum of Understanding with the Minister of Finance to outline the ongoing roles, responsibilities and accountability relationships between the two parties. The OSC and the Minister of Finance signed a Memorandum of Understanding in May 2003. This Memorandum of Understanding must be either affirmed or revised by the new Minister responsible for the OSC.

The OSC maintains accounting and internal control systems to provide reasonable assurance that its financial information is complete, reliable and accurate and that its assets are adequately protected. The Board of Directors, in conjunction with the Audit and Finance committee, has an oversight role to ensure the integrity of the reported information. The OSC Board has enhanced its capacity for independent oversight by creating a Lead Director position. Acting in consultation with the Chair and the Chairs of the Board Committees, the Lead Director is responsible for overseeing the operations of the OSC's Board of Directors to ensure that it carries out its responsibilities effectively.

Analysis of Operating Results

Excess of Revenue over Expenditures

Excess of revenue over expenditures for 2004 was $21.6 million (2003 – $14.6 million). The general operating surplus as at March 31, 2004 was $28.7 million (2003 – $7.0 million).

Actual Results Compared to Budget

Our budget forecast was for an excess of revenue over expenditures of $7.2 million in 2004. Our actual excess was $21.6 million. The $14.4 variance occurred because actual expenses were $2.8 million lower than budget and revenues were $11.6 million higher than forecast.

The key areas where actual expenditures were below budget were training ($424K), Commission expenses ($367K) and professional services ($933K). The OSC also recovered $685K more in enforcement costs than expected.

	Actual	Budget	Variance	Variance
Revenues	$76,612,642	$65,011,000	$11,601,642	17.8%
Expenses	**54,971,174**	**57,816,000**	**2,844,826**	**4.9%**
Excess of Revenue	21,641,468	7,195,000	14,446,468	200.8%
Capital	**1,430,852**	**1,516,000**	**85,148**	**5.6%**

Revenue

The OSC introduced a new, restructured fee schedule effective March 31, 2003. A primary objective of the new schedule was to ensure that the fees more accurately reflect the OSC's cost of providing services to market players. The fee schedule requires the payment of "participation fees" and "activity fees".

Participation fees generally are designed to represent the benefit derived by market participants from participating in Ontario's capital markets. Reporting issuers, registrant firms and unregistered investment fund managers are required to pay participation fees annually. The participation fee is based on a measure of the market participant's size, which is intended to serve as a proxy for the market participant's use of the Ontario capital markets. The amounts of the participation fees have been based on the cost of a broad range of regulatory services that cannot be practically or easily attributed to individual activities or entities. Participation fees replace most of the continuous disclosure filing fees and other activity fees charged to market participants under the previous fee regime.

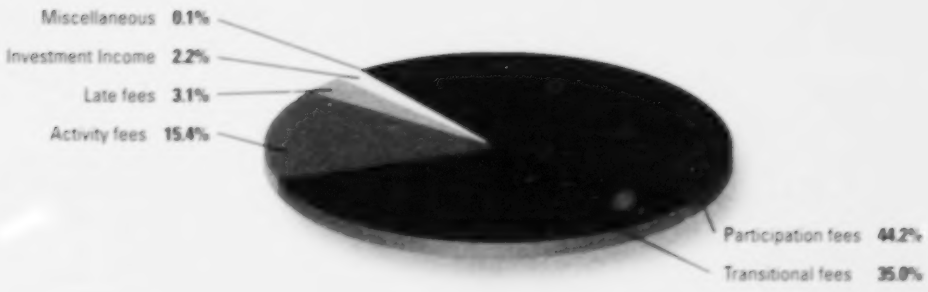
Activity fees are designed to represent the direct cost of OSC staff resources used in undertaking certain activities requested of staff by market participants; for example, the review of prospectuses and applications for discretionary relief or the processing of registration documents. Activity fees are charged only for tasks undertaken by staff at the request of the market participant. Activity fees are charged for a limited number of activities only and are flat rates based on the average cost to the OSC of providing the service.

The Securities Act states that, when ordered to do so by the Minister of Finance, the OSC shall pay into the Consolidated Revenue Fund such of its surplus funds as determined by the Minister. In 2004, the OSC remitted $14.5 million owing from 2003. Under the new fee model, the OSC plans to set fee levels every three years. The Minister has confirmed that the OSC is no longer required to remit its surpluses. Any surpluses retained are subject to appropriate terms and conditions which are yet to be finalized. Any deficits will be funded either through surpluses previously generated or generated in the future, or from the OSC's reserve.

In 2004, fees collected under the *Securities Act* and the *Commodity Futures Act* increased by $6.1 million or 8.7% to $76.6 million. The OSC recognizes revenue when earned, which is usually upon receipt. Since the introduction of the revised fee structure, the OSC has collected more fees than projected. As the previous fee structure was solely activity-based, fees received under the new fee model cannot be compared on a line by line basis.

	% of Total Revenue	2004	2003	Change	% Change
Participation fees	**44.2**	**$33,880,566**	**$0**	**$33,880,566**	**100.0**
Transitional fees	35.0	26,826,132	0	26,826,132	100.0
ACTIVITY FEES					
Activity fees	15.1	11,570,364	0	11,570,364	100.0
Prospectus filings	**0.2**	**123,847**	**35,853,829**	**(35,729,982)**	**-99.7**
Registration	0.1	44,332	26,724,635	(26,680,303)	-99.8
Disclosure filings	**0.0**	**13,416**	**5,105,622**	**(5,092,206)**	**-99.7**
Applications for exemptive relief	0.0	13,867	1,311,277	(1,297,410)	-98.9
	15.4	11,765,826	68,995,363	-57,229,537	-82.9
LATE FEES	3.1	2,382,418	0	2,382,418	100.0
INVESTMENT INCOME	**2.2**	**1,672,727**	**1,375,337**	**297,390**	**21.6**
MISCELLANEOUS	0.1	84,973	102,208	(17,235)	-16.9
TOTAL REVENUES	94.6	76,612,642	70,472,908	6,139,734	8.7

Figure 1: OSC Revenues by type



Participation fees are the largest revenue source accounting for 44.2% of revenues. Actual fees collected exceeded forecast by $7.5 million. Some issuers filed their participation fees earlier than expected, accounting for $5.4 million of the variance. The newness of the fee structure and incomplete baseline data for certain fee revenues explains the remaining $2.1 million variance from our original forecast.

Transitional fees accounted for 35% of total revenues and exceeded forecast by $5.1 million due to inaccurate forecasting. Transitional fees are outstanding fees pertaining to the previous fee schedule. For example, under the previous fee schedule, prospectus fees for mutual funds were paid at the end of the prospectus period based on sales.

Activity fees accounted for 15.4% of total revenues. These fees reflect the cost of providing various services (registration, applications for exemption, prospectus review etc.) to market participants. The fees have been set to recover the average cost incurred by the OSC to provide each service. Activity fee volumes are the most variable component of our revenues. Transaction volumes have been, and are expected to remain, below the levels projected when the new fee schedule was established.

Late fees accounted for 3.1% of revenues. Actual fees collected exceeded forecast by $1.4 million because it was difficult to forecast the level of late filings. These fees were established to encourage timely regulatory filings (e.g. insider reports) and are expected to decline over time. Approximately half of the late fees collected related to SEDI insider filings.

Investment income generated by deposits and other investments increased 21.6% to $1.7 million and accounted for 2.2% (2003 – 2.0%) of total revenues. Investment income of $659K (2003 – $549K) was earned from interest on cash balances. These balances earn interest at a rate of 1.75% below the prime rate or 0.25% below bankers' acceptance. Investment returns on OSC reserves, which are invested in short and mid term instruments through the Ontario Financing Authority, totalled $1.0 million (2003 – $1.0 million). Investment income exceeded forecast because the negative impact of lower than expected interest rates was more than offset by having higher than expected cash balances.

Expenses

Total expenses for 2004 (Figure 2) decreased 1.6% to $55.0 million (2003 – $55.9 million) against a budget of $57.8 million.

	% of Total Expenses	2004	2003	Change	% Change
Salaries and benefits	**74.0**	**$40,688,739**	**$38,278,354**	**$2,410,385**	**6.3**
Administrative	8.3	4,561,661	6,617,364	(2,055,703)	-31.1
Occupancy	**7.2**	**3,972,891**	**3,726,817**	**246,074**	**6.6**
Amortization	5.9	3,233,401	3,069,103	164,298	5.4
Professional services	**2.6**	**1,415,905**	**3,122,824**	**(1,708,919)**	**-54.7**
Other	2.0	1,098,577	1,059,811	38,766	3.7
Total expenses	**100.0**	**54,971,174**	**55,874,273**	**(903,099)**	**-1.6**

	Actual	Budget	Variance	Variance
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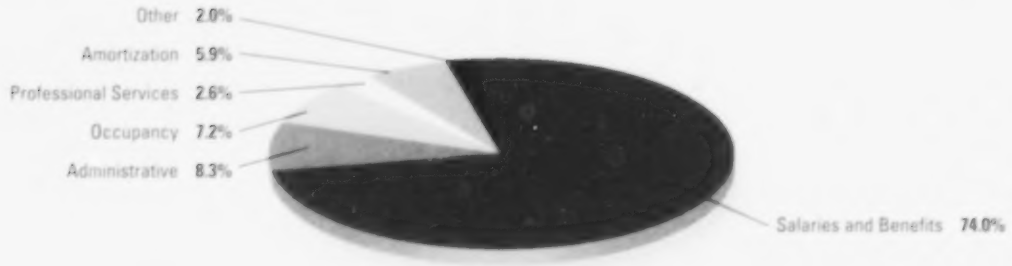
Figure 2: OSC Expenses by type



The key contributors to the expenditure change were as follows:

Salaries and Benefits costs increased by 6.5% to $40.7 million (2003 – $38.5 million) and accounted for 74.0% of the OSC's total expenditures. A number of factors contributed to this increase, including annual salary adjustments ($2.1 million), an increase in staffing levels ($255k), higher benefit costs ($165k) and lower severance costs ($84k). The OSC had 357 permanent employees on board (10.9% positions vacant) at the end of the year compared to 356 (5.8% positions vacant) at the end of 2003.

Administrative costs accounted for 8.3% (2003 – 11.8%) of the OSC's total expenditures. Expenditures on administrative costs decreased by 31.1% to $4.6 million (2003 – $6.6 million). Administrative costs were higher in 2003 as they included a one-time payment to CDS Inc. of $2.0 million representing the OSC's portion of the $4.25 million payment agreed to by CDS Inc., the OSC, the Alberta Securities Commission, the British Columbia Securities Commission and the Investment Dealers Association.

Professional Services costs decreased by 54.7% to $1.4 million and accounted for 2.6% (2003 – 5.6%) of the OSC's total expenditures. This continues a trend toward reduced reliance on external resources as internal expertise has been hired.

Approximately 19.1% of the professional services cost was for enforcement-related matters. The OSC will continue to have an ongoing need for specialized external legal and forensic accounting resources for enforcement activities. The OSC recovers a portion of its enforcement costs through settlements and orders of the Commission. During 2004, $1.6 million was collected (2003 – $855k) and applied to offset enforcement-related expenditures.

The OSC is a member of the Canadian Securities Administrators (CSA), which is a forum composed of provincial securities regulators. A central project office co-ordinates all CSA projects, including the development of harmonized securities policies and rules. A CSA systems office has also been established to manage the CSA's business relationships with third party technology providers. The operating costs for these offices are allocated on a formula basis to CSA members. In 2004, the OSC contributed $388k (2003 – $557k) to the cost of the project office and $119k (2003 – $114k) to the cost of the systems office.

Total CSA spending on projects was $1.8 million in 2004 (2003 – $1.9 million), of which the OSC contributed $854k (2003 – $851k). Key initiatives funded through this process included:

Uniform Securities Legislation	$148k
Investor Education initiatives	$145k
Uniform Securities Transfer Act	$108k
National Registration Database	$96k
Mutual Fund Financial Disclosure Reform	$82k
SEDI implementation	$75k

Amortization costs accounted for approximately 5.9% (2003 – 5.5%) of the OSC's total expenditures. Amortization expenses increased to $3.2 million (2003 – $3.1 million).

Occupancy costs accounted for approximately 7.2% (2003 – 6.7%) of the OSC's total expenditures. Expenditures on occupancy increased 6.6% to $4.0 million (2003 – $3.7 million) due to higher operating costs and the annualized impact of additional space acquired in 2003.

Other costs, which includes travel and related expenses, were unchanged at $1.1 million and accounted for 2.0% (2003 – 1.9%) of the OSC's total expenditures.

Liquidity and Financial Position

Liquidity

The OSC requires liquidity to finance its operations and capital purchases. As at March 31, 2004, the OSC held $30.7 million (2003 – $22.7 million) in cash, had current assets of $52.5 million (2003 – $25.2 million) and current liabilities of $8.1 million (2003 – $24.3 million) for a current ratio of 4:1 (2003 – 1:1).

Accounts Receivable

Accounts receivable declined 33% to $1.4 million (2003 – $2.1 million). Outstanding late fees increased to $748K in 2004 and accounted for 52% of accounts receivable. Key decreases in accounts receivable included collection of a loan to CDS Inc. ($915K), a reduction in interest receivable on investments ($415K) and an increase in our allowance for doubtful accounts ($283K).

Reserve

The new OSC fee structure has reduced the potential for significant fluctuations in revenues arising from market volatility. Revenue generation remains a source of risk for the OSC as all revenues are still correlated to market activity to some extent. To manage this uncertainty, the OSC has a $20 million reserve as an operating contingency for revenue shortfalls or unexpected expenditures. The OSC has an additional $12.0 million reserve that may only be used to offset costs incurred related to the proposed merger of the OSC with the Financial Services Commission of Ontario.

Due to an increase in the value of funds invested, investment income increased 21.6% to $1.7 million (2003 – $1.4 million). The rate of return on investments is low as the funds are invested in Province of Ontario treasury bills. The prime investment consideration for the reserve is the protection of capital and the appropriate liquidity to meet unanticipated cash flow needs. The OSC takes income generated by the reserve into general operations.

Capital Transactions

Capital expenditures of $1.4 million (2003 – $1.6 million) were made during 2004. Purchases were primarily technology related ($1.3 million), including the purchase of equipment for increased staff complement and an upgrade of the computer network.

Liabilities

Accounts payable and accrued liabilities decreased 18.0% to $8.1 million (2003 – $9.9 million). The decrease occurred because the provision for refunds for prospectus fees (2003 – $1.7 million) is no longer required under the new fee schedule.

The accrued benefit liability represents obligations relating to supplementary pension plans. The unfunded supplemental pension plans had an accrued benefit obligation of $735K (2003 – $545K) at March 31, 2004. The OSC's related expense for the year was $115K (2003 – $282K) and is included in salaries and benefits. The decrease occurred due to the resignation of a Vice Chair during the year.

In support of the development of the Mutual Fund Dealers Association (MFDA), the OSC guaranteed 61% of a total $1.2 million line of credit as assistance during start-up of MFDA operations. The Alberta Securities Commission and the British Columbia Securities Commission also guaranteed a specific percentage of the total indebtedness. As at March 31, 2004, the MFDA line of credit had a zero balance (2003 – $3.0 million). As the MFDA is now fully operational, the parties to the agreement have approached the MFDA to obtain a release from this loan guarantee. A response to this request is expected by June 2004.

Designated Settlements

In August 2000, the Commission established a not-for-profit corporation, the Investor Education Fund, in order to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. A Board of Directors governs the Investor Education Fund and is responsible for developing criteria for, and approving, the disbursement of funds.

In 2004, the OSC approved $2.0 million (2003 – $150K) in settlements arising from enforcement proceedings. To date $1.6 million has been collected. The *Securities Act* allows the Commission, subject to approval from the Minister, to allocate designated settlement funds to or for the benefit of third parties such as the Investor Education Fund. The OSC is seeking Ministerial approval to transfer the designated settlement balance to third parties.

Risks and Uncertainties

Reliance on CDS Inc.

CDS Inc. operates a number of major systems on behalf of the CSA and the OSC. In 2004, more than 90% (2003 – 58%) of fee revenue was collected through the System for Electronic Document Analysis and Retrieval (SEDAR) and the National Registration Database (NRD) systems. CDS Inc. recovers its costs to operate these systems by charging user fees to filers.

The CSA is in the process of renewing the operating agreement for SEDAR. The NRD system was launched on March 31, 2003. The current operating agreement for the NRD expires March 2009. The System for Electronic Disclosure by Insiders (SEDI) became fully operational in May 2003. The current operating agreement for SEDI runs until May 2010.

If CDS becomes unwilling or unable to operate one or all of these systems, the OSC and the CSA will need to explore options to continue operating these systems.

Risk-Based Compliance

Risk-based approaches are being used for disclosure review and compliance. As a result, fewer reviews are undertaken, but each review, on average, is carried out in more depth. Enforcement also uses a risk-based approach to ensure cases that are brought forward are subject to consistent scrutiny, involve significant breaches of Ontario securities law, and give appropriate consideration to Commission priorities.

Business Continuity Plan

The OSC completed a Business Continuity Plan (BCP) to ensure the continuation of critical regulatory services should the OSC face a significant disruption to its operations. Detailed business continuity plans are in place for each priority business function. Each plan includes documented recovery procedures including manual workarounds and mitigation strategies. Offsite recovery services and facilities will be in place by June 2004.

Internal Audit

The OSC has a three-year internal audit plan to address the key risks that could impact the achievement of our business objectives. In 2004, our third party internal auditors completed reviews of our contract management and project management processes. No major risk exposures were identified and implementation of the recommended process improvements is underway.

2005 Outlook

In 2004, $76.6 million was collected under the *Securities Act* and the *Commodity Futures Act*. The new OSC fee structure was designed to reduce the potential for significant fluctuations in revenues arising from market volatility. The revised fee structure has generated surpluses for the following reasons:

- fee levels were set to generate a small surplus given the newness of the fee model and because a significant number of variables had to be estimated;
- incomplete data resulted in conservative estimates for certain fee revenues;
- a year over year timing difference occurred due to early receipt of fees; and
- the level of fees from late filings was difficult to forecast.

The OSC revenue forecast for 2005 is $67.3 million, 12.1% lower than actual 2004 revenues. The forecast was reduced due to the timing difference noted above and reflects our experience with the new fee structure. The forecast does not anticipate a material change in the level of market activity. The potential for material market fluctuations due to world events is a source of risk that could have a negative impact on OSC revenues.

In 2004, 90% of total OSC revenues were collected on behalf of the OSC through systems operated by CDS Inc. No material change is expected in the volume of fees collected through these systems.

Before the introduction of the new fee rule, the OSC had a $7.0 million surplus. For the three year period ending 2006, the OSC is forecasting a $22.2 million surplus for a total projected surplus of $29.2 million. The introduction of CD Rule 51-102, which accelerated filing and fee payment dates, explains $15.4 million of this surplus. The OSC remains committed to ensuring that our market participants pay fees equivalent to the costs of regulation. Before setting fees for the three year period ending 2009, we will review each service activity and its related cost. Activity fees will be set based on the cost to provide the service. Participation fees will be set at levels to generate a cumulative deficit equal to the surplus collected from market participants as at March 31, 2006. Fee levels will also reflect our goal to ensure that the fees paid by issuers and registrants reflect the projected costs to regulate each group.

The OSC budgeted net operating expenditures to increase 5.7% to $61.1 million for 2005 (2004 – $57.8 million). The budget increase is explained by:

- a 8.7% rise in salaries and benefits to $44.2 million (2004 – $40.7 million). The annualized cost impact of 2004 hiring and higher projected benefit rates explain this increase. The budget includes a 2.4% increase in approved staffing to 386.
- a 2.5% increase in 2005 occupancy costs to $4.1 million (2004 – $4.0 million) due to higher lease-related operating costs. Amortization costs are expected to remain constant in 2005.
- a 6.7% decrease in professional services costs to $2.8 million for 2005 (2004 – $3.0 million).

The 2005 capital budget is $1.7 million, 21.4% higher than the $1.4 million spent in 2004. More than 90.0% of the planned capital expenditures are information technology-related reflecting our continued commitment to maintaining state of the art information technology capabilities.

The ongoing national discussions on approaches to securities regulation in Canada could cause actual results to differ materially.

MANAGEMENT'S RESPONSIBILITY AND AUDITOR'S REPORT

Management's Responsibility

Management is responsible for the integrity of the financial statements and other information presented in the annual report. The financial statements have been prepared by management in accordance with Canadian generally accepted accounting principles.

The Ontario Securities Commission is committed to full and open disclosure of its operations and maintains a system of internal controls designed to provide reasonable assurance that reliable financial information is available on a timely basis. The preparation of financial statements involves the use of estimates based on management's judgement on transactions which will conclude in future periods.

The Board of Directors ensures that management fulfills its responsibility for financial information and internal control. The financial statements have been reviewed by the Audit Committee and approved by the Board of Directors. The Provincial Auditor's Report, which follows, outlines the scope of the Auditor's examination and opinion.

David A. Brown, Q.C.
Chair and Chief Executive Officer

May 7, 2004

Office of the
Provincial Auditor
of Ontario

Bureau du
vérificateur provincial
de l'Ontario

Box 105, 15th Floor, 20 Dundas Street West, Toronto, Ontario M5G 2C2
B.P. 105, 15e étage, 20, rue Dundas ouest, Toronto (Ontario) M5G 2C2
(416) 327-2381 Fax (416) 327-9862

Auditor's Report

To the Ontario Securities Commission

I have audited the balance sheet of the Ontario Securities Commission as at March 31, 2004 and the statements of operations and operating surplus and cash flows for the year then ended. These financial statements are the responsibility of the Commission's management. My responsibility is to express an opinion on these financial statements based on my audit.

I conducted my audit in accordance with Canadian generally accepted auditing standards. Those standards require that I plan and perform an audit to obtain reasonable assurance whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation.

In my opinion, these financial statements present fairly, in all material respects, the financial position of the Commission as at March 31, 2004 and the results of its operations and its cash flows for the year then ended in accordance with Canadian generally accepted accounting principles.

Toronto, Ontario
May 7, 2004

J. R. McCarter, CA
Assistant Provincial Auditor

Balance Sheet

As at March 31, 2004

	2004	2003
ASSETS		
CURRENT		
Cash	$30,652,492	$22,704,342
Accounts receivable	1,427,708	2,139,605
Prepaid expenses	465,923	401,421
	32,546,123	25,245,368
DESIGNATED SETTLEMENTS (Note 9)	2,000,711	474
RESERVE FUND ASSETS (Note 3)	32,000,000	32,000,000
CAPITAL ASSETS (Note 5)	5,237,023	7,039,570
	$71,783,857	$64,285,412
LIABILITIES		
CURRENT		
Accounts payable and accrued liabilities	$8,077,550	$9,854,764
Due to Province of Ontario (Note 11(a))	–	14,480,975
	8,077,550	24,335,739
NON-CURRENT		
Other long term liabilities (Note 8(b))	928,060	813,131
	9,005,610	25,148,870
DESIGNATED SETTLEMENTS (Note 9)	2,000,711	474
SURPLUS		
OPERATING		
General (Note 6)	28,679,292	7,037,824
Reserve (Note 3)	32,000,000	32,000,000
	60,679,292	39,037,824
CONTRIBUTED	98,244	98,244
	60,777,536	39,136,068
	$71,783,857	$64,285,412

Investor Education Fund (Note 10)

Commitments and Contingencies (Note 4)

See accompanying notes to Financial Statements

On behalf of the Commission

David A. Brown, Q.C.
Chair

Robert W. Davis, FCA
Commissioner

Balance Sheet

As at March 31, 2004

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ASSETS		
CURRENT		
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	9,005,610	25,148,870
DESIGNATED SETTLEMENTS (Note 9)	2,000,711	474
SURPLUS		
OPERATING		
General (Note 6)	28,679,292	037,824
Reserve (Note 3)	32,000,000	32,000,000
	60,679,292	39,037,824
CONTRIBUTED	98,244	98,244
	60,777,536	39,136,068
	$71,783,857	$64,285,412

Income Taxation, Fund (Note 10)

Commitments and Contingencies (Note 11)

See accompanying notes to Financial Statements

On behalf of the Commission

David A. Brown, Q.C.
Chair

Robert B. Davis, O.C.
Commissioner

Statement of Operations and Operating Surplus

For the year ended March 31, 2004

	2004	2003
REVENUE		
Fees (Note 6)	$74,854,942	$68,995,363
Investment income	1,672,727	1,375,337
Miscellaneous	84,973	102,208
	76,612,642	70,472,908
EXPENSES		
Salaries and benefits (Note 8)	40,688,739	38,278,354
Administrative	4,561,661	6,617,364
Occupancy (Note 7)	3,972,891	3,726,817
Amortization	3,233,401	3,069,103
Professional services (Note 2b)	1,415,905	3,122,824
Other	1,098,577	1,059,811
	54,971,174	55,874,273
EXCESS OF REVENUE OVER EXPENSES	21,641,468	14,598,635
OPERATING SURPLUS, BEGINNING OF PERIOD	39,037,824	41,375,164
LESS: Distributions to Province of Ontario (Note 11(a))	—	16,935,975
OPERATING SURPLUS, END OF PERIOD	$60,679,292	$39,037,824
REPRESENTED BY:		
General	$28,679,292	$7,037,824
Reserve	32,000,000	32,000,000
	$60,679,292	$39,037,824

See accompanying notes to Financial Statements

Statement of Cash Flows

For the year ended March 31, 2004

	2004	2003
NET INFLOW (OUTFLOW) OF CASH RELATED TO THE FOLLOWING ACTIVITIES		
CASH FLOWS FROM OPERATING ACTIVITIES		
Excess of revenue over expenses	$21,641,468	$14,598,635
Adjustments for amortization	3,233,401	3,069,103
	24,874,869	17,667,738
CHANGES IN NON-CASH WORKING CAPITAL		
Accounts receivable	711,897	(1,135,371)
Prepaid expenses	(64,502)	20,831
Due to Province of Ontario	(14,480,975)	8,583,027
Accounts payable and accrued liabilities	(1,777,214)	1,598,834
Other long term liabilities	114,929	282,336
	(15,495,865)	9,349,657
	9,379,004	27,017,395
CASH FLOWS FROM FINANCING ACTIVITIES		
Distributions to Province of Ontario	–	(16,935,975)
	–	(16,935,975)
CASH FLOWS FROM INVESTING ACTIVITIES		
Purchase of capital assets	(1,430,854)	(2,231,763)
	(1,430,854)	(2,231,763)
NET INCREASE (DECREASE) IN CASH POSITION	7,948,150	7,849,657
CASH POSITION, BEGINNING OF PERIOD	22,704,342	14,854,685
CASH POSITION, END OF PERIOD	$30,652,492	$22,704,342

See accompanying notes to Financial Statements.

NOTES TO FINANCIAL STATEMENTS

1. Nature of the Corporation

Effective November 1, 1997, amendments to the *Securities Act* continued the Ontario Securities Commission (the Commission) as a corporation without share capital. The Commission functions as an independent regulatory agency and administrative tribunal responsible for overseeing the securities industry in Ontario. As a Crown corporation, the Commission is exempt from income taxes.

2. Significant Accounting Policies

These financial statements have been prepared in accordance with Canadian generally accepted accounting principles. Significant accounting policies followed in the preparation of these financial statements are:

a) Capital assets

Capital assets are recorded at cost less accumulated amortization. Amortization is calculated on a straight-line basis over the estimated useful lives of the assets, beginning in the fiscal year following acquisition, as follows:

Office furniture and equipment	5 to 10 years
Computer hardware and related applications	2 years
Leasehold improvements	over term of lease

b) Revenue

Fees are recognized when earned which is normally upon receipt.

Recovery of costs of investigations is netted against professional services upon date of decision unless management determines there is no reasonable assurance as to ultimate collection, in which case recovery is recognized when cash is received.

c) Use of estimates

The preparation of financial statements in accordance with Canadian generally accepted accounting principles requires that management make estimates and assumptions that affect the reported amounts of assets and liabilities as at the date of the financial statements and the reported amounts of revenues and expenditures for the period. Actual amounts could differ from these estimates.

d) Employee Benefit Plan

The Commission provides pension benefits to its full-time employees through participation in the Public Service Pension Plan, which is a multi-employer defined benefit pension plan. This plan is accounted for as a defined contribution plan, as the Commission has insufficient information to apply defined benefit plan accounting to this pension plan.

The Commission also maintains supplementary unfunded pension plans for certain full-time members. The Commission accrues its obligations and the related costs under these supplemental unfunded pension plans. The transitional obligation is being amortized over the average remaining service period of active members expected to receive benefits under these plans. For purposes of valuation, the actuarial liability and the current service cost is determined by independent actuaries using the projected benefit method prorated on services and management's best estimate assumptions.

Post-retirement non-pension benefits are not included in the Statement of Operations and Operating Surplus as described in Note 11(c).

3. Reserve

As part of the approval of its self-funded status, the Commission was allowed to establish a $20.0 million reserve to be used as an operating contingency against revenue shortfalls or unanticipated expenditures. The accumulated funds, at March 31, 2004, have been invested in short-term and mid-term instruments with the Ontario Financing Authority.

The Commission received approval from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger with the Financial Services Commission of Ontario as described in Note 12, and are subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and

ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

4. Commitments and Contingencies

a) The Commission has guaranteed 61% of a total $12.0 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2004, the MFDA has drawn $0 (2003 - $2,963,000) on this line of credit. Interest is charged at prime plus 0.50% per annum. In March 2004, the Commissions requested that the MFDA arrange for their removal as guarantors to the agreement. This request will be taken to the MFDA Board in June 2004.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

5. Capital Assets

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Office furniture	$2,832,884	$1,858,821	$974,063	$1,503,676
Office equipment	282,246	179,875	102,371	151,028
Computer hardware and related applications	10,571,990	8,298,812	2,273,178	2,238,438
Leasehold improvements	5,828,866	3,941,455	1,887,411	3,146,430
	$19,515,986	$14,278,963	$5,237,023	$7,039,570

6. Streamlining Of Fees Under The Securities Act

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the *Securities Act*. The new fee regime is designed to accomplish three primary objectives: to reduce the overall fees charged to market participants from what existed previously in Ontario, to create a clear and streamlined fee structure, and adopt fees that accurately reflect the Commission's costs of operations.

The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants. Transitional fees represent one-time fees to facilitate the change to the new fee structure.

Under the new fee model, the Commission sets fees over a three-year horizon, and, accordingly, the General Operating Surplus at March 31, 2004 of $28,679,292, adjusted for surpluses or deficits in 2005 and 2006, will be reflected in the fees set for the following three-year cycle beginning in 2007.

The Commission received approval from the Ministry of Finance to retain $12.0 million, which may only be used toward implementation costs of the proposed merger with the Financial Services Commission of Ontario as described in Note 12, and are subject to appropriate terms and conditions agreed with the Ministry of Finance, including:

i) The monies will be paid to the Consolidated Revenue Fund, in part or in full, if not required to fund the costs of the merger; and

ii) While retained by the Commission, the monies will be invested with the Ontario Financing Authority.

Investments are carried at cost, which approximates market value. The prime investment consideration for the reserve is the protection of principal and the appropriate liquidity to meet cash flow needs. Interest earned on investments is credited to the operations of the Commission.

4. Commitments and Contingencies

a) The Commission has guaranteed 6% of a total $12.0 million line of credit from a Canadian bank for the Mutual Fund Dealers Association of Canada (MFDA). The guarantee was signed March 19, 1999 and can be terminated by the Commission at any time. The Alberta Securities Commission and the British Columbia Securities Commission have also guaranteed a specified percentage of the total indebtedness. The MFDA has signed an agreement which requires it to use the funds only in accordance with the budget and business plan as approved by each of the Commissions, and also commits the MFDA to repay its loan by the end of the seventh year. As at March 31, 2004, the MFDA has drawn $0 (2003 - $2,963,000) on this line of credit. Interest is charged at prime plus 0.5% per annum. In March 2004, the Commissions requested that the MFDA arrange for their removal as guarantors to the agreement. This request will be taken to the MFDA Board in June 2004.

b) The Commission is involved in various legal actions arising out of the ordinary course and conduct of business. Settlements, if any, concerning these contingencies will be accounted for in the period in which the settlement occurs. The outcome and ultimate disposition of these actions are not determinable at this time.

5. Capital Assets

	Cost	Accumulated Amortization	2004 Net Book Value	2003 Net Book Value
Office furniture	$2,832,884	$1,858,821	$974,063	$1,503,676
Office equipment	282,246	179,875	102,371	151,026
Computer hardware and related applications	10,571,990	8,298,812	2,273,178	2,238,438
Leasehold improvements	5,828,866	3,941,455	1,887,411	3,146,430
	$19,515,986	$14,278,963	$5,237,023	$7,039,570

6. Securities Legislation Amendment Act

Commencing on March 31, 2003, the Commission introduced a new fee model under the provisions of the *Securities Act*. The new fee regime is designed to accomplish three primary objectives: to reduce the overall fees charged to market participants from what existed previously in Ontario; to create a clear and streamlined fee structure; and adopt fees that accurately reflect the Commission's costs of operations.

The fee regime is based on the concept of "participation fees" and "activity fees". Participation fees represent the benefit derived by market participants from participating in Ontario's capital markets. Activity fees represent the direct cost of Commission staff resources expended in undertaking certain activities requested of staff by market participants. Transitional fees represent one-time fees to facilitate the change to the new fee structure.

Under the new fee model, the Commission sets fees over a three-year horizon, and, accordingly, the General Operating Surplus at March 31, 2004 of $28,679,292, adjusted for surpluses or deficits in 2005 and 2006, will be reflected in the fees set for the following three-year cycle beginning in 2007.

The structure of the previous fee regime was based on the concept of "activity fees" alone, and as such, fees received under the new fee model cannot be compared on a line by line basis. Details of fees received for the year ended March 31, 2004 are as follows:

Participation Fees	**$33,880,566**
Transitional Fees	26,826,132
Activity Fees	**11,765,826**
Late filings Fees	2,382,418
Total	**$74,854,942**

Details of fees received for the year ended March 31, 2003 were as follows:

Prospectus filings	**$35,853,829**
Registration	26,724,635
Disclosure filings	**5,105,822**
Applications for exemptive relief	1,311,277
Total	**$68,995,363**

7. Lease Obligations

Operating

The Commission is committed to operating lease payments for the next 5 years as follows:

2005	**$3,885,043**
2006	$1,673,922
2007	**$82,504**
2008	$51,205
2009	**$0**

8. Pension Plans

a) The Commission's contribution to the Public Service Pension Plan for the year ended March 31, 2004 was $2,104,631 (2003 – $1,346,895) and is included in salaries and benefits.

b) The unfunded supplemental pension plans had an accrued benefit obligation of $735,476 at March 31, 2004 (2003 – $544,565). The Commission's related expense for the year was $114,929 (2003 – $282,356) and is included in salaries and benefits. No benefits were paid during the year (2003 – $0). The average remaining service period of the active members covered by these plans ranges from .25 to 5.04 years (2002 – .92 to 3.85 years). The significant actuarial assumptions adopted at March 31, 2004 include a discount rate of 5.5% (2003 – 6.5%) and a rate of compensation increase of 2.5%, if applicable (2003 – 0.0%).

9. Designated Settlements

The Commission has reached a number of settlement agreements arising from enforcement proceedings where monies from these settlements are received or receivable by the Commission to be set aside and allocated to such third parties as the Commission may determine, subject to the approval of the Minister of Finance. The accumulated funds are held in a segregated bank account. As at March 31, 2004, the accumulated balance is determined as follows:

	2004	2003
Opening balance	$474	$130,878
Settlements	1,999,400	150,000
Interest	1,311	3,474
Payments		
Investor Education Fund — prior period	(474)	(130,878)
Investor Education Fund — current period	–	(153,000)
Investor Education Fund — Total	(474)	(283,878)
Closing Balance	$2,000,711	$474
REPRESENTED BY:		
Cash	$1,628,195	$101
Receivables	372,516	373
	$2,000,711	$474

10. Investor Education Fund

a) The Investor Education Fund (the "Fund") was incorporated by letters patent of Ontario dated August 5, 2000 as a non-profit corporation without share capital. The Fund is managed by an independent Board of Directors and its purpose is to increase knowledge and awareness among investors and potential investors and to support research and develop programs and partnerships which promote investor education. The Commission oversees the Fund as the sole voting member. The Fund is exempt from income taxes.

The Fund has not been consolidated in the Commission's financial statements. Financial statements of the Fund are available on request. Financial summaries of this unconsolidated entity as at March 31, 2004 and for the year ended March 31, 2004 are as follows:

Investor Education Fund

	2004	2003
Financial Position		
Total assets	$7,037,458	$7,598,660
Total liabilities	$235,808	$166,285
Invested in capital assets	753,806	164,027
Available for Fund purposes	6,047,844	7,268,348
Total net assets	6,801,650	7,432,375
	$7,037,458	$7,598,660
Results of Operations		
Total contributions and interest income	$700,852	$369,047
Total expenses	1,331,577	1,109,991
Excess deficiency of revenue over expenses	($630,725)	($740,944)
Cash flows		
Cash flows from operating activities		
Cash receipts from the Ontario Securities Commission	$474	$283,878
Cash receipts from third parties	500,000	8,000
Investment income received	207,033	196,439
Cash paid for initiatives and expenses	(1,180,041)	(1,135,825)
Cash paid for capital purchases	(671,792)	(164,027)
Net increase (decrease) in cash position	(1,144,326)	(811,535)
Cash position, beginning of period	7,415,470	8,227,005
Cash position, end of period	$6,271,144	$7,415,470

The structure of the previous fee regime was based on the concept of "activity fees" alone, and as such, fees received under the new fee model cannot be compared on a line by line basis. Details of fees received for the year ended March 31, 2004 are as follows:

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Transitional Fees	26,826,132
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7. [illegible]

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9. DESIGNATED SETTLEMENTS

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Investor Education Fund — Total	(474)	(283,878)
Closing Balance	$2,000,711	$474

Cash	$1,628,195	$101
Receivables	372,516	373
	$2,000,711	$474

	2004	2003
Financial Position		
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Total liabilities	$235,808	$166,285
Invested in capital assets	753,806	164,027
Available for Fund purposes	6,047,844	7,268,348
Total net assets	6,801,650	7,432,375
	$7,037,458	$7,598,660
Results of Operations		
Total contributions and interest income	$700,852	$369,047
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Cash position, beginning of period	7,415,470	8,227,005
Cash position, end of period	$6,271,144	$7,415,470

b) In the normal course of operations, the Commission entered into transactions with the Fund as follows:

i) The Board of the Commission did not authorize any transfers of the Commission's Designated Settlements to the Fund (2003 – $153,474) as a result of an amendment to the Securities Act that requires that such transfers are approved by the Minister of Finance.

ii) The Commission has a Management Services agreement with the Fund for the provision of administrative and management services, at cost.

For the period ended March 31, 2004, the Commission incurred costs totalling $386,735 (2003 – $310,925) for services related to the Fund. The total cost of these services has been charged back to the Fund and, of this amount, $105,980 is owing to the Commission as of March 31, 2004 (2003 – $116,288).

11. Transactions With Province of Ontario

In the course of normal operations, the Commission entered into transactions with the Province of Ontario as follows:

a) The *Securities Act* states that when ordered to do so by the Minister of Finance, the Commission shall remit to the Province of Ontario such surplus funds as determined by the Minister. In light of the new fee model as described in note 6 and the Commission's plans to set fees in three-year cycles, the Commission is no longer required to make quarterly remittances of its surplus to the Consolidated Revenue Fund. Surpluses retained by the Commission are subject to appropriate terms and conditions to be agreed to with the Ministry.

b) The Commission has a tri-party agreement with the Ontario Financing Authority to facilitate banking arrangements with a Schedule I Bank.

c) Costs of post-retirement non-pension employee benefits have been paid by the Management Board Secretariat and are not included in the Statement of Operations and Operating Surplus.

12. Establishing a Single Financial Services Regulator

In the May 2, 2000 Budget, the Minister of Finance announced that the Ontario Securities Commission and the Financial Services Commission of Ontario would be merged into a single agency that would provide regulation of the capital markets and financial services sectors.

Legislation is required in order to create the proposed new organization and specify its regulatory responsibilities and powers. Draft legislation supporting this initiative was released for comment by the Ministry of Finance in April 2001. At March 31, 2004, legislation has not yet been introduced.

13. Comparative Figures

Certain of the comparative figures have been reclassified to conform to current presentation.

OSC PUBLIC SALARY DISCLOSURE (CALENDAR 2003)

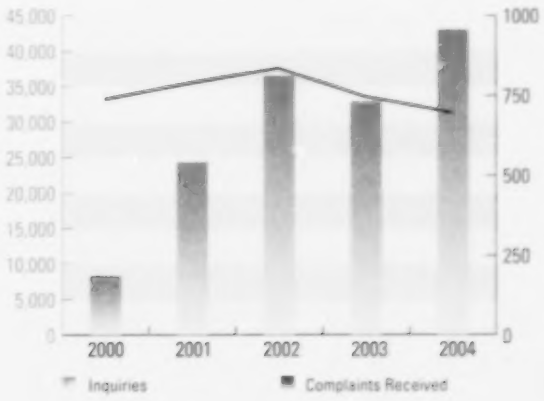
Name	Position	Compensation Paid	Taxable Benefits
Alexopoulos, Tula	Senior Manager, Policy and Project Office	$152,829.28	$256.78
Antoniou, Noufia	Senior Accountant	$116,194.46	$225.16
Au, Matthew	Accountant	$100,714.90	$472.17
Beck, Joan	Senior Legal Counsel	$158,797.98	$304.89
Bertolva, Julie	Senior Accountant	$119,501.08	$184.89
Blackburn, Lisa	Accountant	$105,299.23	$496.53
Blumberger, Eraz	Assistant Mangager, Corporate Finance Team 1	$160,815.30	$643.71
Bridge, Marrianne	Manager, Compliance	$159,413.40	$275.61
Britton, Matthew	Senior Litigation Counsel	$159,618.25	$276.57
Brown, David	Chair	$606,156.16	$9,755.77
Brown, Michael	Legal Counsel	$125,342.12	$209.49
Bureaud, Jean-Paul	Legal Counsel	$139,655.58	$469.65
Butler, Brian	Manager, Investigations	$176,762.13	$718.92
Byers, Christopher	Legal Counsel	$118,727.89	$205.65
Byrnes, Robert	Deputy Director, Information Technology	$171,277.55	$1,433.61
Ca ·thrae, John	Chief Accountant	$218,103.13	$329.25
Casiero, Vincent	Investigation Counsel	$135,131.31	$235.53
Chaukos, Pat	Senior Accountant, Legal Counsel	$152,738.66	$883.73
Chisholm, Yvonne	Litigation Counsel	$140,644.04	$351.09
Cho, Peter	Senior Forensic Accountant	$143,165.33	$786.00
Chung, YuMee	Legal Counsel	$108,854.84	$197.88
Clark, Alexandra	Litigation Counsel	$128,757.40	$206.61
Clarke, Brian	Assistant Manager, Investigations	$152,886.89	$251.97
Cole, Emily	Litigation Counsel	$133,570.50	$145.38
Collins, Stephanie	Forensic Accountant	$120,039.93	$199.35
Corbett, Hugh	Litigation Counsel	$138,792.29	$352.05
Cottrell, John	Senior Forensic Accountant	$125,591.91	$636.84
Coultice, David	Senior Legal Counsel	$109,995.67	$195.48
Cowdery, Rebecca	Manager, Investment Funds Regulatory Reform	$109,029.47	$154.44
Daniels, Kathryn	Assistant Manager, Litigation	$161,295.38	$ 34.53
Davis, Robert	Commissioner	$110,000.00	$0.00
Day, Robert	Manager, Business Planning and Reporting	$139,133.70	$226.89
De Lint, Dirk	Legal Counsel	$142,016.04	$632.82
De Souza, Paul	Forensic Accountant	$107,764.68	$512.61
De Verteuil, Michael	Senior Forensic Accountant	$140,310.43	$241.32
Dempsey, Paul	Manager, Investment Funds	$114,109.76	$168.98
Dhillon, Indi	Accountant	$101,965.51	$182.49
Di Lieto, Rossana	Senior Legal Counsel	$166,749.21	$271.29
Dublin, Julia	Senior Legal Counsel	$183,111.40	$489.93
Dundas, Linda	Senior Derivatives Specialist	$120,986.94	$203.57
Enright, Lisa	Senior Accountant	$105,194.29	$663.72
Fallone, Joanna	Manager, Case Assessment	$168,976.68	$293.01
Forster Pazienza, Christina	Assistant Manager, Compliance	$135,162.53	$581.13
Franken, Heidi	Senior Accountant	$121,428.85	$205.17
Fung, Carlin	Senior Accountant	$119,948.45	$203.15
Fydell, Barbara	Legal Counsel	$135,979.52	$224.97
Gerhart, Marsha	Senior Legal Counsel	$162,096.13	$793.60
Gilkes, David	Manager, Registrant Regulation	$156,743.03	$514.09
Goldberg, Rhonda	Senior Legal Counsel	$133,742.66	$241.89
Gorman, Kelly	Assistant Manager, Corporate Finance Team 2	$153,324.84	$247.62
Greenglass, Susan	Senior Legal Counsel	$155,957.37	$284.28
Gunn, George	Manager, Surveillance	$157,985.72	$1,844.33
Hayward, Paul	Legal Counsel	$117,227.16	$537.21
Heidman, Sandra	Senior Accountant	$122,730.05	$338.49
Holmes, Janet	Senior Legal Counsel	$158,249.47	$284.35
Hubley, Michael	Assistant, Manager, Investigations	$102,244.01	$829.80
Hughes, John	Manager, Corporate Finance Team 3	$175,786.51	$291.09
Humphreys, John	Investigation Counsel	$111,356.98	$290.62
Jepson, Christopher	Legal Counsel	$142,262.94	$593.10
Jiwani, Nurez	Director, Regulatory Coordination	$103,442.50	$0.00
Kalra, Ritu	Senior Accountant	$120,884.81	$502.53
Kanji, Nimran	Legal Counsel	$130,607.24	$219.18
Kennedy, Melissa	Manager, Litigation	$120,692.93	$196.11
Kohl, Robert	Senior Legal Counsel	$166,116.88	$438.69
Koor, Elle	Manager, Policy and Project Office	$186,076.92	$256.80
Law, Leo	Applications Architect	$103,237.21	$579.52
Leung, Antoinette	Senior Accountant	$139,784.81	$232.17
Liu, Winfield	Senior Legal Counsel	$145,814.14	$480.72
Lo, Yvonne	Senior Forensic Accountant	$125,591.91	$218.64
MacCready, Charles	Assistant Manager, Corporate Finance Team 3	$148,732.23	$546.67
Macfarlane, Charles	Executive Director	$405,590.38	$7,828.83
Mainville, Chantal	Legal Counsel	$122,033.22	$238.89
Manarin, Karen	Litigation Counsel	$155,445.46	$257.25
Martin Gorelle, Krista	Senior Legal Counsel	$167,615.48	$279.00
Martin Sidey, Donna	Legal Counsel	$168,214.21	$563.08
McCombe, Deborah	Geologist	$135,121.06	$577.29
McCurdy, David	Technology Advisor	$129,968.22	$224.01
McGregor, Mark	Manager, Technology Services	$109,448.87	$628.32
McInnis, Cameron	Manager, Corporate Finance Team 1	$140,817.51	$988.25
McKall, Darren	Senior Legal Counsel	$125,447.48	$221.10
McKinnon, Kelley	Manager, Litigation	$173,269.91	$241.02
McManus, Mark	Manager, Inquiries & Contact Centre	$115,665.30	$1,701.60
Moniz, Andre	Investigation Counsel	$111,307.10	$194.01
Moore, Paul	Vice Chair	$391,817.84	$7,827.48
Morphy, H. Lorne	Commissioner	$136,108.94	$0.00
Mulima, Mark	Legal Counsel	$127,225.15	$508.83
Nania, Viraf	Senior Accountant	$123,172.91	$218.64
Naster, Jay	Special Counsel	$259,342.43	$314.25
Nunes, Vera	Legal Counsel	$111,799.97	$225.93
O'Donovan Erin	Legal Counsel	$124,100.94	$230.12
Oseni, Sarah	Legal Counsel	$142,003.16	$300.81
Panzetta, Frank	Controller	$107,554.55	$204.69
Pare, Maxime	Senior Legal Counsel	$163,365.76	$638.85
Paul, Margo	Director, Corporate Finance	$202,489.79	$332.61
Pavalow, Randee	Director, Capital Markets	$222,073.00	$753.90
Petlock, Cindy	Manager, Market Regulation	$163,856.38	$283.86
Petroff, Thomas	Senior Market Analyst	$109,787.67	$47.31
Pilipavicius, Rima	Senior Forensic Accountant	$131,927.10	$239.40
Pilkey, Scott	Senior Investigation Counsel	$176,033.18	$857.96
Powley, Randall	Chief Economist	$165,631.68	$280.44
Rafuse, Martha	Legal Counsel	$114,140.02	$206.97
Ramsay, Anne	Senior Accountant	$140,114.49	$220.09
Sanjoto, Winnie	Legal Counsel	$112,484.31	$180.21
Sankar, Levi	Investigation Counsel	$103,797.53	$241.32
Shay, Ralph	Director, Take Over Bids	$183,180.87	$318.57
Sikora, Jody	Forensic Accountant	$111,792.94	$185.37
Silma, Susan	Director, Investment Funds	$157,140.13	$253.44
Sinclair, Donna	Investigation Counsel	$100,333.39	$568.92
Smith, Ian	Litigation Counsel	$122,886.17	$187.47
Spencer, Mary Ann	Director, Corporate Services	$212,424.17	$338.37
Stern, Tracey	Senior Legal Counsel	$157,996.74	$260.61
Stevenson, John	Secretary to the Commission	$176,794.70	$301.68
Stow, Nancy	Mgr, IEF Research & Dev't Support Srvc	$103,370.63	$188.29
Superina, Johanna	Senior Litigation Counsel	$173,878.60	$292.05
Switzer, Frank	Director, Communications	$170,028.11	$431.06
Tedesco, Felicia	Assistant, Manager, Compliance	$153,887.23	$664.41
Tilke, Marcel	Senior Accountant	$144,307.72	$867.29
Toledano, Lori	Forensic Accountant	$110,668.08	$384.81
Too, Byron	Manager, Application Services	$112,914.45	$730.72
Tsatsos, Irene	Senior Accountant	$130,663.88	$224.49
Veor, Michael	Forensic Accountant	$105,172.50	$1,967.40
Vranic, Iva	Manager, Corporate Finance Team 2	$184,125.68	$302.64
Walz, Trevor	Accountant	$100,701.71	$219.69
Watson, Michael	Director, Enforcement	$240,055.10	$591.45
Welsh, Doug	Legal Counsel	$126,382.80	$218.13
Wetston, Howard	Vice Chair	$303,391.20	$3,913.74
Whiler, Rick	Senior Accountant	$157,297.01	$252.96
Williams-Kinghorn, Terri	Manager - IEF Service Bureau	$117,699.01	$293.28
Wolburgh Jenah, Susan	General Counsel & Dir. Int'l Affairs	$237,290.09	$377.40
Wootton, Kate	Litigation Counsel	$104,165.33	$294.93

The total remuneration of the Commission's Board in calendar 2003 (excluding the Board members listed above) was $335,543.36

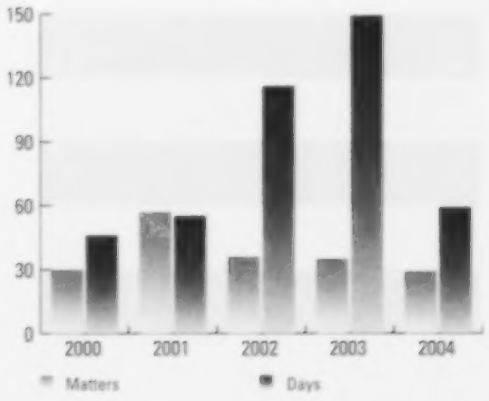
FIVE YEAR STATISTICAL SUMMARY

Fiscal Year Ending March 31, 2004

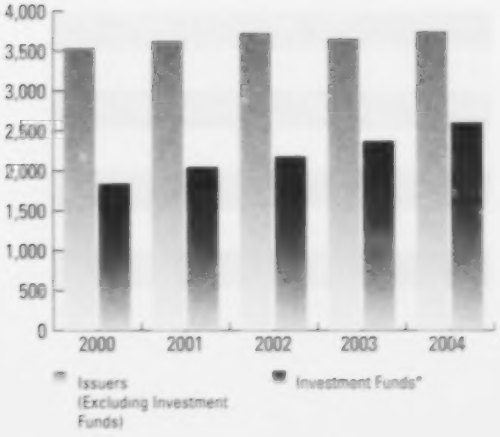
Complaints and Inquiries



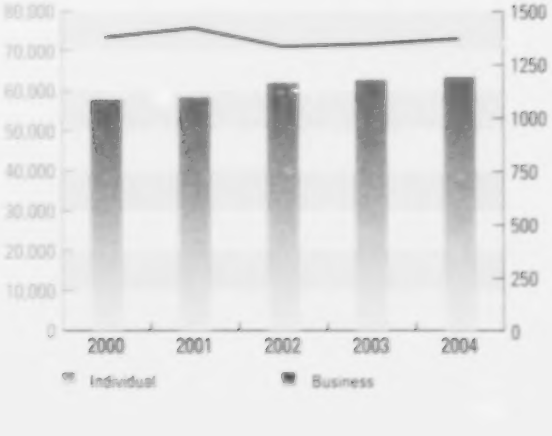
Hearings



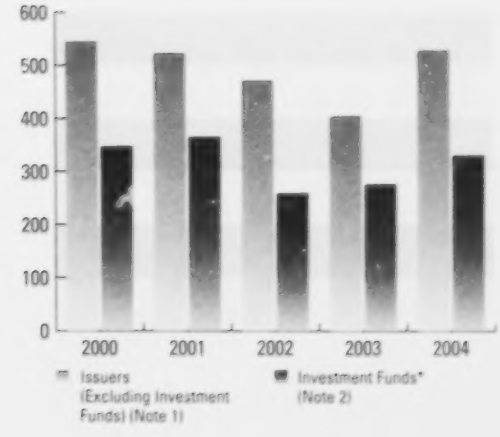
Reporting Issuers



Registration



Prospectuses Filed



** Commencing fiscal 2003/2004 numbers are reported for investment funds, which includes mutual funds and non-redeemable investment funds. Numbers from 2000 to 2003 have not been restated and are reported for mutual funds only.*

Note 1: It should be noted that this chart includes short form prospectuses and may include prospectuses which were withdrawn or for which the Director refused to issue a final receipt.

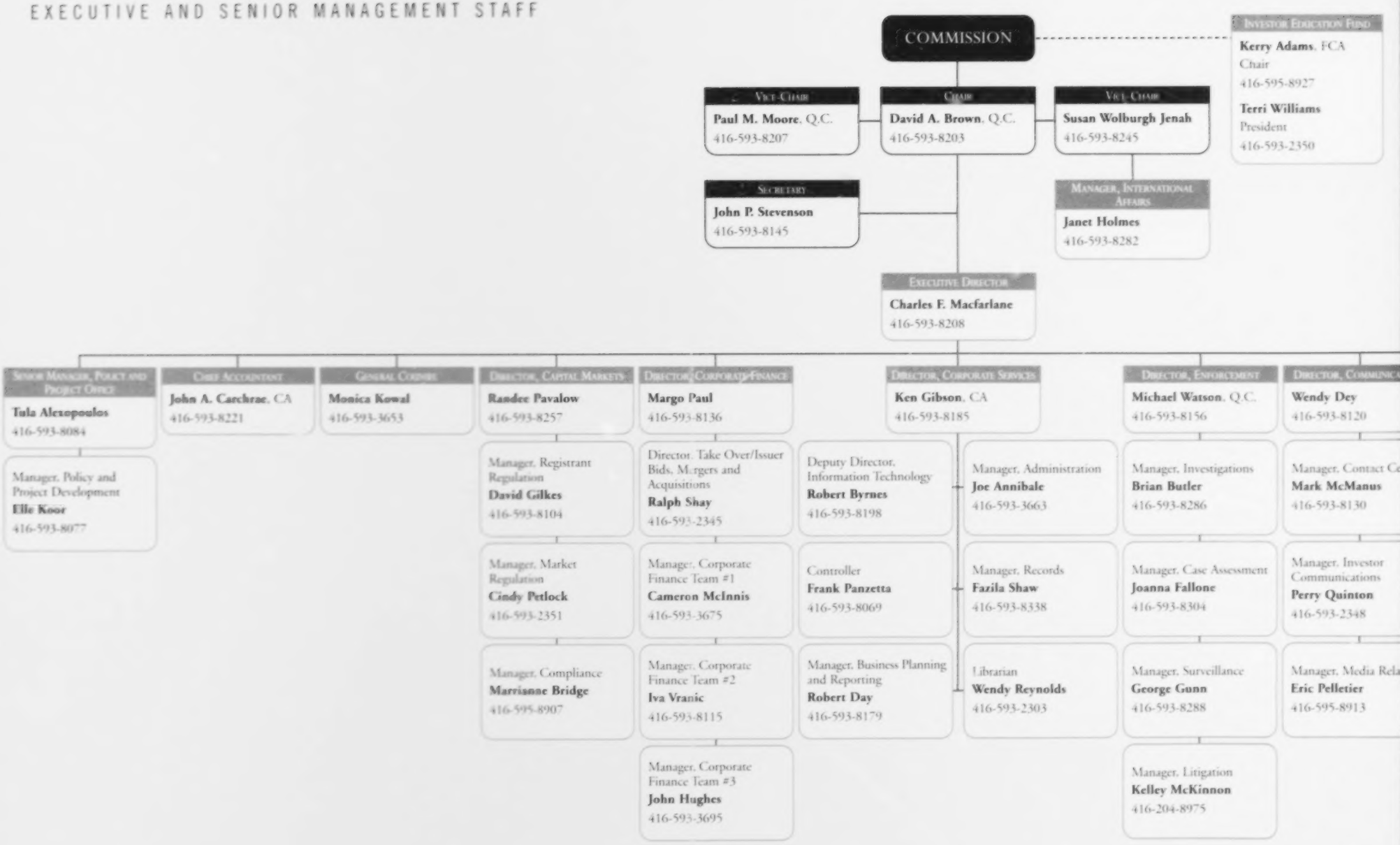
Note 2: In most cases a prospectus qualifies more than one fund issuer. These numbers represent 2,600 investment funds - 288 of which were newly created in fiscal 2003/2004. There were 196 amendment filings for investment fund prospectuses.

ONTARIO SECURITIES COMMISSION

2004

Organizational Chart

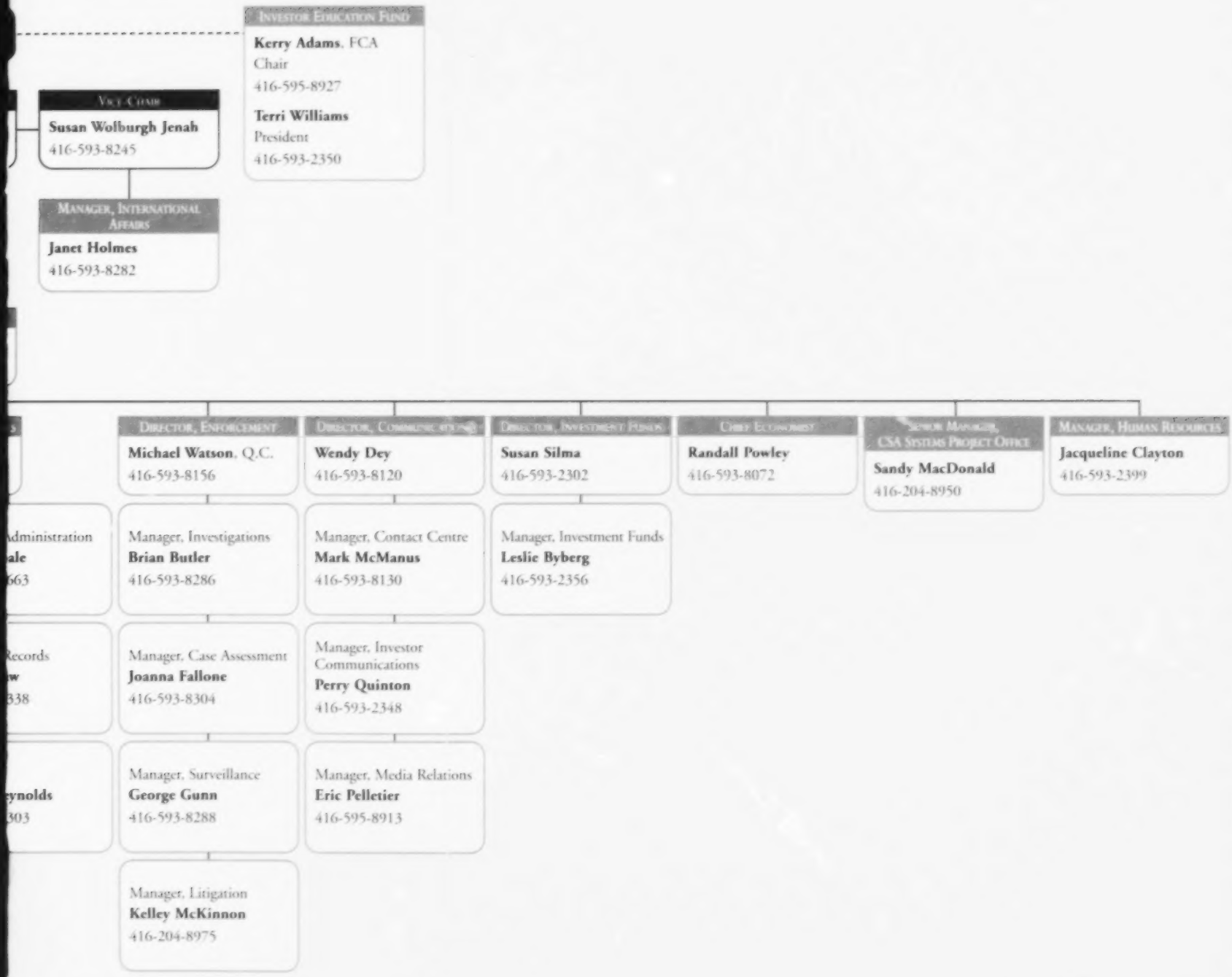
EXECUTIVE AND SENIOR MANAGEMENT STAFF



PLEASE NOTE: All e-mail addresses are as follows:
first initial followed by last name then @osc.gov.on.ca

EXECUTIVES AND SENIOR MANAGEMENT STAFF

PLEASE NOTE: All e-mail addresses are as follows:
first initial followed by last name then **@osc.gov.on.ca**


Investor Education Fund
Kerry Adams, FCA
Chair
416-595-8927
Terri Williams
President
416-593-2350
Vice-Chair
Susan Wolburgh Jenah
416-593-8245
Manager, International Affairs
Janet Holmes
416-593-8282
Director, Enforcement
Michael Watson, Q.C.
416-593-8156
Director, Corporate Finance
Wendy Dey
416-593-8120
Director, Investment Funds
Susan Silma
416-593-2302
Chief Economist
Randall Powley
416-593-8072
Senior Manager, CSA Systems Project Office
Sandy MacDonald
416-204-8950
Manager, Human Resources
Jacqueline Clayton
416-593-2399
Manager, Investigations
Brian Butler
416-593-8286
Manager, Contact Centre
Mark McManus
416-593-8130
Manager, Investment Funds
Leslie Byberg
416-593-2356
Manager, Case Assessment
Joanna Fallone
416-593-8304
Manager, Investor Communications
Perry Quinton
416-593-2348
Manager, Surveillance
George Gunn
416-593-8288
Manager, Media Relations
Eric Pelletier
416-595-8913
Manager, Litigation
Kelley McKinnon
416-204-8975

Kerry Adams, FCA
Chair
+416-595-8927

Terri Williams
President
+416-593-2350

VICE-CHAIR

Susan Wolburgh Jenah
+416-593-8245

Janet Holmes
+416-593-8282

Michael Watson, Q.C.
+416-593-8156

Wendy Dey
+416-593-8120

Susan Silma
+416-593-2302

Randall Powley
+416-593-8072

Sandy MacDonald
+416-204-8950

Jacqueline Clayton
+416-593-2390

dministration
ale
663

Manager, Investigations
Brian Butler
+416-593-8286

Manager, Contact Centre
Mark McManus
+416-593-8130

Manager, Investment Funds
Leslie Byberg
+416-593-2356

Records
w
338

Manager, Case Assessment
Joanna Fallone
+416-593-8304

Manager, Investor Communications
Perry Quinton
+416-593-2348

ynolds
303

Manager, Surveillance
George Gunn
+416-593-8288

Manager, Media Relations
Eric Pelletier
+416-595-8913

Manager, Litigation
Kelley McKinnon
+416-204-8975

ORGANIZATION

To effectively carry out its mandate, the Ontario Securities Commission is organized into 10 branches.

Capital Markets

The Capital Markets Branch establishes the regulatory framework for the operation of dealers, advisers, markets and self-regulatory organizations.

Corporate Finance

The Corporate Finance Branch is responsible for the regulation of reporting issuers, overseeing public securities offerings, mergers and acquisitions activity and the ongoing dissemination of information by issuers.

Investment Funds

The Investment Funds Branch regulates the offering of investment funds in Ontario through prospectus reviews and exemption applications.

Enforcement

The Enforcement Branch ensures that Ontario's securities laws are upheld through equitable and effective enforcement.

Communications

The Communications Branch ensures that all OSC stakeholders are kept well informed of Commission activities and policies.

Corporate Services

The Corporate Services Branch builds and maintains the core internal systems and infrastructure necessary for OSC staff to work effectively and efficiently.

General Counsel's Office

The General Counsel's Office is an in-house legal and policy resource, providing advice and assistance on operational, transactional and regulatory issues.

Office of the Chief Accountant

The Office of the Chief Accountant provides specialized advice on financial reporting and related policy issues to the Commission and market participants.

Office of the Chief Economist

The Office of the Chief Economist provides cost-benefit analyses of significant policy projects and analytical support on OSC initiatives.

Office of the Secretary

Reporting directly to the Chair, the Office of the Secretary ensures the fair, impartial and efficient operation of the Commission's administrative proceedings, reviews and appeals.

Ontario Securities Commission
20 Queen Street West, Suite 1900,Toronto. ON M5H 3S8
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www.osc.gov.on.ca

OSC

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